



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad - 500 043

MASTER OF BUSINESS ADMINISTRATION

TUTORIAL QUESTION BANK

Course Title	STRATEGIC INVESTMENT AND FINANCING DECISIONS				
Course Code	CMBB56				
Programme	MBA				
Semester	IV				
Course Type	Professional Elective-V				
Regulation	IARE - R18				
Course Structure	Theory			Practical	
	Lectures	Tutorials	Credits	Laboratory	Credits
	4	-	4	-	-
Chief Coordinator	Mrs. G Joseph Mary, Assistant Professor, MBA				
Course Faculty	Mrs. G Joseph Mary, Assistant Professor, MBA				

COURSE OBJECTIVES;

The course should enable the students to:

S. No	Description
I.	Understand the role of financial strategies
II.	Evaluate the financial resources and different financial decisions.
III.	Apply Strategies to avoid risk in the business and to face uncertainties.
IV.	Be aware of critical analysis of appraisal techniques, mergers and acquisitions basic issues.

COURSE OUTCOMES:

Students, who complete the course, will have demonstrated the ability to do the following:

CMBB56.01	Understand the risk, uncertainty, risk analysis in investment decisions, risk adjusted rate of return and certainty equivalents.
CMBB56.02	Examine the probability distribution of cash flows decision trees, sensitivity analysis and Monte Carlo approach to simulation.
CMBB56.03	Enumerate the investment decisions under capital constraints like capital rationing, portfolio risk and diversified projects.
CMBB56.04	Familiarize different types of investment, disinvestments, project abandonment decisions and evidence of internal rate of return.

CMBB56.05	Describe the concept of multiple internal rate of return, Modified internal rate of return, pure, simple and mixed investments.
CMBB56.06	Determine the Lorie savage paradox, adjusted net present value and know the impact of inflation on capital budgeting decisions.
CMBB56.07	Demonstrate the discounted pay back, post pay back, surplus life, surplus payback and bail out pay back..
CMBB56.08	Express the concepts of return on investment, equivalent annual cost, terminal value, single period constraints, multi period capital constraints and unresolved problem
CMBB56.09	Apply the techniques of net present value, mean variance analysis hertz simulation, hillier approaches and the significance of information and data bank in project selections.
CMBB56.10	Discuss the concepts of lease financing, leasing Vs. Operating risk, borrowing vs. procuring, hire purchase and installment purchase decisions

TUTORIAL QUESTION BANK

S. No	QUESTION	Blooms Taxonomy Level	Course Outcomes
UNIT-I			
INVESTMENT DECISIONS UNDER CONDITIONS OF RISK			
PART-A (SHORT ANSWER QUESTIONS)			
1	Obtain the term investment. What do you mean by capital budgeting in investment analysis?	Remember	CMBB56.01
2	Narrate the term risk in investment. Discuss the capital budgeting under risk and uncertainty?	Understand	CMBB56.02
3	State the importance of decision making under certainty in choosing best course of action from the available course of action?	Understand	CMBB56.02
4	Narrate the meaning of uncertainty and the model of decision making under risk in investment analysis..	Remember	CMBB56.01
5	Describe the model of decision making under uncertainty in choosing best course of action from the available course of action.	Understand	CMBB56.02
6	Obtain the term risk? State the various sources and perspectives of risk in a project?	Remember	CMBB56.02
7	Narrate the meaning of adjusted rate of return as tool for risk analysis in investment decisions?	Understand	CMBB56.01
8	State the approach takes into account the risk factor in making estimations and appraisal of capital investments?	Remember	CMBB56.02
9	How do you analyze the risk in investment decisions by using probability distribution of cash flows?	Understand	CMBB56.02
10	Describe the importance of decision tree approach which represents problems in a series of decisions to be made under conditions of uncertainty.	Remember	CMBB56.01
11	Discuss the sensitivity analysis which helps to migrate the impact of Influences depending on severity of risk?	Understand	CMBB56.02
12	Narrate the meaning of simulation? Describe the various types of simulation in investment analysis?	Remember	CMBB56.02
13	Discuss the steps involved in the process of simulation by Monte- Carlo simulation?	Understand	CMBB56.02

14	Narrate the importance of capital rationing in selecting the projects that maximizes the firm value?	Remember	CMBB56.02
15	Obtain the term capital rationing. Write about advantages and disadvantages of capital rationing?	Remember	CMBB56.01
16	Distinguish between capital rationing and portfolio in investment analysis?	Remember	CMBB56.02
17	Obtain the term portfolio risk. Discuss about Markowitz portfolio theory for measurement of risk?	Remember	CMBB56.02
18	Narrate the term capital rationing? Discuss about hard capital rationing and reasons for soft capital rationing?	Remember	CMBB56.02
19	Obtain the term soft capital rationing. Give the reasons for hard capital rationing in Investment analysis?	Remember	CMBB56.02
20	State the use of Monte- Carlo approach to simulation in investment Analysis?	Remember	CMBB56.01
PART-B (LONG ANSWER QUESTIONS)			
1	Obtain the term Risk Adjusted Discount Rate (RADR) in analysis of risk in investment decision. Describe advantages and disadvantages of risk adjusted rate of return?	Understand	CMBB56.01
2	Discuss about certainty equivalents approach which takes into account the risk factor in making estimations and appraisal of capital investment decisions?	Understand	CMBB56.01
3	Briefly Describe decision tree approach which represents problems in a series of decisions to be made under conditions of uncertainty	Understand	CMBB56.02
4	Narrate the meaning of capital rationing? Discuss the types, advantages and disadvantages in capital rationing in investment decisions?	Remember	CMBB56.02
5	Examine that do you measure portfolio risk and Portfolio return under Markowitz portfolio theory in investment decisions?	Remember	CMBB56.02
6	Obtain the term capital rationing. How can you distinguish capital rationing from portfolio in investment decisions?	Remember	CMBB56.01
7	Narrate the term simulation. Discuss in detail about Monte Carlo approach to simulation in investment decisions under risk and uncertainty?	Understand	CMBB56.02
8	Obtain the different types Investment decisions? What are the Characteristics of investment decisions	Understand	CMBB56.02
9	What do you mean buy decision Making in under uncertainty? Write in detail about the various criteria's used for decision-making in uncertainty	Understand	CMBB56.01
10	Describe certainty equivalent techniques in risk analysis. How it is superior to conventional approaches?	Understand	CMBB56.01
11	Explore the meaning of risk and uncertainty? How they are different from each other with features.	Remember	CMBB56.02
12	Narrate the meaning of certainty equivalent coefficient?	Understand	CMBB56.01
13	Describe the relevance of Risk Adjusted Rate of Return in investment analysis with an example.	Understand	CMBB56.02
14	What do you mean by Simulation Analysis? What steps are involved in simulation analysis?	Understand	CMBB56.02
15	What are Various sources of Risk ? Describe Briefly about the sources of Risk?	Remember	CMBB56.02
16	How do you Calculate Portfolio Return and Portfolio risk?	Understand	CMBB56.02

17	Suggest any two Probability distributions applied to discrete random Variables. Give expressions for their probability density function	Understand	CMBB56.02																																															
18	Discuss briefly about diversification of project	Remember	CMBB56.01																																															
PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)																																																		
1	An investment project will cost Rs 50000 initially and it is expected to generate cash flow in four year Rs 25000, Rs 20000, Rs 10000 and Rs 100000. Narrate the meaning of the projects NPV? Assume a 10% risk free rate	Remember	CMBB56.02																																															
2	<p>A Conditional pay off matrix is given below. By Using this matrix calculate Expected Monetary Value EMV for each course of action and determine the optimum EMV.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">States of Nature</th> <th rowspan="2">Probabilities</th> <th colspan="5">Conditional pay off matrix</th> </tr> <tr> <th>A₁</th> <th>A₂</th> <th>A₃</th> <th>A₄</th> <th>A₅</th> </tr> </thead> <tbody> <tr> <td>N1</td> <td>0.03</td> <td>0</td> <td>-30</td> <td>-70</td> <td>-110</td> <td>-150</td> </tr> <tr> <td>N2</td> <td>0.15</td> <td>0</td> <td>4</td> <td>-25</td> <td>-65</td> <td>-110</td> </tr> <tr> <td>N3</td> <td>0.20</td> <td>0</td> <td>4</td> <td>9</td> <td>-20</td> <td>-60</td> </tr> <tr> <td>N4</td> <td>0.50</td> <td>0</td> <td>4</td> <td>9</td> <td>14</td> <td>-15</td> </tr> <tr> <td>N5</td> <td>0.12</td> <td>0</td> <td>4</td> <td>9</td> <td>14</td> <td>10</td> </tr> </tbody> </table>	States of Nature	Probabilities	Conditional pay off matrix					A ₁	A ₂	A ₃	A ₄	A ₅	N1	0.03	0	-30	-70	-110	-150	N2	0.15	0	4	-25	-65	-110	N3	0.20	0	4	9	-20	-60	N4	0.50	0	4	9	14	-15	N5	0.12	0	4	9	14	10	Analyze	CMBB56.02
States of Nature	Probabilities			Conditional pay off matrix																																														
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N5	0.12	0	4	9	14	10																																												
3	<p>A Food product company is contemplating the introduction of a revolutionary new product with new packaging to replace the existing product at much price (S1) or a moderate change in the composition of the existing product with a new packaging at a small increasing in price (S2) or a small change in the composition of the existing except the word 'new' with a negligible increase in price (S3). The three possible states of nature of events are, (i) High increase in sales (N1) (ii) No Change in sales (N2), and (iii) Decrease in sales (N3). The Marketing Department of the company worked out the payoffs in terms of yearly net profits for each course of action for these events (expected sales). This is represented in the following table</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">States of Nature</th> <th colspan="3">Courses of Action</th> </tr> <tr> <th>S1</th> <th>S2</th> <th>S3</th> </tr> </thead> <tbody> <tr> <td>N1</td> <td>700000</td> <td>500000</td> <td>300000</td> </tr> <tr> <td>N2</td> <td>300000</td> <td>450000</td> <td>300000</td> </tr> <tr> <td>N3</td> <td>150000</td> <td>0</td> <td>300000</td> </tr> </tbody> </table> <p>What strategy should the company choose on the basis of</p> <p>(a) Maximim Criterion (b) Maximax Criterion (c) Minimax regret Criterion (d) Laplace Criterion</p>	States of Nature	Courses of Action			S1	S2	S3	N1	700000	500000	300000	N2	300000	450000	300000	N3	150000	0	300000	Analyze	CMBB56.01																												
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N3	150000	0	300000																																															

4	Determine Certainty Equivalent (CE) For the following information			Analyze	CMBB56.01		
	Years	Cash Flows Project X(Rs)	CE Factor Project X				
	0	500000	0.90				
	1	300000	0.80				
	2	200000	0.68				
	3	500000	0.55				
4	550000	0.42					
5	150000	0.30					
5	Mr. Kamal is considering two mutually exclusive project 'p' and 'Q'. Advise him regarding acceptability of the project from the given information			Analyze	CMBB56.01		
	Cash flows	Project 'P' (Rs)	Project 'Q' (Rs)				
	Cost of investment	60,000	60,000				
	Forecast cash inflows per annum for 7 Years:						
	Optimistic	40,000	50,000				
	Most Likely	30,000	30,000				
Pessimistic	25,000	10,000					
(The Cut off rate is assumed to be 18%)							
6	The automobile company manufactures around 150 scooters. The daily procedure varies from 146 to 154 depending upon the availability of Raw materials and the other working Conditions.			Analyze	CMBB56.01		
	Production Per day	Probability					
	146	0.20					
	149	0.15					
	152	0.35					
	154	0.30					
The Finished scooters are transported in a special arranged lorry accommodating 150 scooters using the following random number. 09, 27, 15, 66, 07, 88, 72, 07, 33, 41 Simulate the process to find out, (i) What will be the average number of scooters waiting in the factory? (ii) What will be the average number of empty Space on the lorry?							
7	Determine portfolio risk involved with the help of following information				Analyze	CMBB56.01	
	No	Scrip Name	Weight of scrip(%)	SD (%)			Correlation between Acc and L&T
	1	I	30	45			
	2	J	70	10			
Advice the company regarding the financial feasibility of the project							
8	There are two project A and B. Each involves an investment of Rs 50000. The expected cash inflows and the certainty coefficient are as under			Analyze	CMBB56.01		
	Year	Project A	Project B				

	Cash Inflows (Rs)	Certainty Coefficient	CashInflows (Rs)	Certainty Coefficient
1	30,000	0.9	35,000	0.8
2	27,000	0.8	25,000	0.7
3	15,000	0.7	18,000	0.6
4	15,000	0.6	16,000	0.5

Risk Free Cut off rate is 14%. Which investment should be preferred?

9	<p>A Company Has the following estimates of the present value of the future cash flows after taxes associated with the plant capacity. It intends to use a decision approach to get a clear picture of the possible outcomes of this investment. The plant expansion expected to cost Rs 300000. The respective PVs of future CFAT and probability are as follows</p> <table border="1"> <thead> <tr> <th>With expansion (Rs)</th> <th>Without expansion (Rs)</th> <th>Probabilities</th> </tr> </thead> <tbody> <tr> <td>3,00,000</td> <td>2,00,000</td> <td>0.2</td> </tr> <tr> <td>5,00,000</td> <td>2,00,000</td> <td>0.4</td> </tr> <tr> <td>9,00,000</td> <td>3,50,000</td> <td>0.4</td> </tr> </tbody> </table> <p>Advise the company regarding the financial feasibility of the project</p>	With expansion (Rs)	Without expansion (Rs)	Probabilities	3,00,000	2,00,000	0.2	5,00,000	2,00,000	0.4	9,00,000	3,50,000	0.4	Analyze	CMBB56.01
With expansion (Rs)	Without expansion (Rs)	Probabilities													
3,00,000	2,00,000	0.2													
5,00,000	2,00,000	0.4													
9,00,000	3,50,000	0.4													

UNIT-II

INVESTMENTS AND DISINVESTMENTS

PART-A(SHORT ANSWER QUESTIONS)

1	Narrate the meaning of investment decision? Discuss the various types of investments in a business?	Remember	CMBB56.03
2	Determine the meaning of investment? State the different types of investment companies by the investment companies act, 1940?	Understand	CMBB56.03
3	Distiguish closed ended investment companies from open end investment companies?	Remember	CMBB56.04
4	Obtain the term mutual funds in investment decision?	Remember	CMBB56.04
5	Briefly Describe the importance of mutual funds in a diversified portfolio of securities?	Understand	CMBB56.03
6	Narrate the meaning of capital budgeting? Write the steps involved in the process of investment?	Remember	CMBB56.04
7	Obtain the term disinvestment. Give the reasons for disinvestment in capital budgeting?	Understand	CMBB56.04
8	Describe the objectives of disinvestment policy of the government in public sector companies.	Understand	CMBB56.03
9	State the rules and procedure for carrying out the disinvestment as per government of India?	Remember	CMBB56.03
10	Discuss the various methods adopted by the Government of India for disinvesting the public sector undertakings?	Understand	CMBB56.04
11	State the importance of abandonment analysis in updating the capital budgeting decision?	Understand	CMBB56.03
12	Describe the various relations among PVCF, SV, and DV in divestment	Remember	CMBB56.03

	of the project in disinvestment.		
13	Obtain the term Internal Rate Of Return.	Remember	CMBB56.04
14	Briefly Describe about multiple Internal Rate Of Return (MIRR) in capital budgeting decisions?	Understand	CMBB56.03
15	State the need of Modified Internal Rate Of Return as a financial measure in ranking alternative investments of equal size?	Remember	CMBB56.03
16	Narrate the meaning of simple investment? Give one example for simple investment?	Remember	CMBB56.04
17	Narrate the meaning of the difference between pure investment and mixed investment in investment analysis?	Remember	CMBB56.03
18	Describe Lorie and Savage applied linear programming model for resolving capital rationing problem.	Remember	CMBB56.04
19	Discuss advantages and disadvantages of Adjusted Net Present Value in capital budgeting?	Remember	CMBB56.04
20	Describe the factors influencing capital expenditure decisions in capital budgeting decisions.	Remember	CMBB56.03
PART-B (LONG ANSWER QUESTIONS)			
1	Obtain the term disinvestment. What are the types of investments in capital budgeting decision?	Remember	CMBB56.03
2	Discuss any two methods for calculation of mutual funds returns in detail?	Remember	CMBB56.04
3	Narrate the meaning of investment decision? Describe the steps involved in the process of capital budgeting in detail.	Understand	CMBB56.04
4	Obtain the term disinvestment. State the three methods adopted by Government of India for disinvesting the public sector undertakings?	Understand	CMBB56.03
5	Obtain the term project abandonment analysis. Discuss in detail about the information necessary to take capital budgeting decisions as divestment value?	Remember	CMBB56.04
6	Briefly Describe about Lorie and Savage Paradox linear programming model for resolving capital rationing problem?	Understand	CMBB56.03
7	Discuss the differences in detail among Internal Rate Of Return, Modified Internal Rate Of Return and Multiple Internal Rate Of Return	Remember	CMBB56.04
8	Describe the differences among simple investment, pure investment and mixed investment with a example.	Understand	CMBB56.03
9	Obtain the term Net Present Value In Capital Budgeting Decisions. Describe About Adjusted Net Present Value in evaluation of the projects.	Remember	CMBB56.04
10	What are project abandonment decisions? Describe Abandonment analysis with examples	Remember	CMBB56.04
11	Narrate the meaning of Internal Rate of Return? How is it calculated? State merits and demerits of IRR	Remember	CMBB56.03
12	Do you think modified IRR is superior to IRR? Discuss the reasons for increase in the importance of Internal Rate Of Return in the firms?	Remember	CMBB56.03
13	Describe the quadratic expression of dual rate of return with example?	Understand	CMBB56.03

14	“IRR should be determined based on the types of investment and characteristic of alternatives” Describe the statement by emphasizing on the types of investment	Understand	CMBB56.03																		
15	Describe Net Present Value (NPV) method .What are its advantages and disadvantage?	Remember	CMBB56.03																		
16	Narrate the meaning of Adjusted Net Present Value? How Adjusted NPV is calculated and explain the merits and limitations of ANPV?	Understand	CMBB56.03																		
17	Describe the Modified NPV Calculated? Show why NPV of a simple project decreases as the discount rate increases	Understand	CMBB56.03																		
18	Discuss the impact of inflation on capital budgeting Decision	Understand	CMBB56.04																		
19	What are the steps to be considered in application of adjusted present value approach?	Remember	CMBB56.04																		
PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)																					
1	<p>ABC Company has started a Project 5year ago which has a remaining life of 5years. Te forecasted cash flows (in millions) for the balance life is as follows</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Forecasted cash flows</td> <td>70</td> <td>60</td> <td>76</td> <td>50</td> <td>45</td> </tr> </tbody> </table> <p>The Salvage value at the end of 5th year is 200 Million. A Third party has offered to buy the project for Rs 210 million. The discount rate is 10%, what should ABC company do</p>	Year	1	2	3	4	5	Forecasted cash flows	70	60	76	50	45	Analyze	CMBB56.04						
Year	1	2	3	4	5																
Forecasted cash flows	70	60	76	50	45																
2	<p>Hindustan Co Ltd is considering investing in a project requiring capital outlay of 200000. The cash flows after tax are as follows</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Years</th> <th>Cash Flows After Tax</th> </tr> </thead> <tbody> <tr> <td>1</td> <td></td> </tr> <tr> <td>2</td> <td>90000</td> </tr> <tr> <td>3</td> <td>90000</td> </tr> <tr> <td>4</td> <td>80000</td> </tr> <tr> <td>5</td> <td>80000</td> </tr> <tr> <td></td> <td>60000</td> </tr> </tbody> </table>	Years	Cash Flows After Tax	1		2	90000	3	90000	4	80000	5	80000		60000	Remember	CMBB56.04				
Years	Cash Flows After Tax																				
1																					
2	90000																				
3	90000																				
4	80000																				
5	80000																				
	60000																				
3	<p>A company is considering an investment proposal to install new milling controls at a cost of Rs 50000. The facility has a life expectancy of 5 years and no salvage value. The tax Rate is 35%. Assumed the firm uses straight line depreciation and the same is allowed for tax purpose. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>CFBT(Rs)</td> <td>10000</td> <td>10692</td> <td>12769</td> <td>13462</td> <td>20385</td> </tr> </tbody> </table> <p>Calculate the IRR of the investment Proposal</p>	Year	1	2	3	4	5	CFBT(Rs)	10000	10692	12769	13462	20385	Analyze	CMBB56.04						
Year	1	2	3	4	5																
CFBT(Rs)	10000	10692	12769	13462	20385																
4	<p>Your Company is considering two mutually exclusive project X and Y, Whose costs and cash flows are shows below,</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Year</th> <th>X</th> <th>Y</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(1,000)</td> <td>(1,000)</td> </tr> <tr> <td>1</td> <td>100</td> <td>1,000</td> </tr> <tr> <td>2</td> <td>300</td> <td>100</td> </tr> <tr> <td>3</td> <td>400</td> <td>50</td> </tr> <tr> <td>4</td> <td>700</td> <td>50</td> </tr> </tbody> </table> <p>Calculate MIRR at a Rate of 12%</p>	Year	X	Y	0	(1,000)	(1,000)	1	100	1,000	2	300	100	3	400	50	4	700	50	Understand	CMBB56.03
Year	X	Y																			
0	(1,000)	(1,000)																			
1	100	1,000																			
2	300	100																			
3	400	50																			
4	700	50																			

5	<p>X company is considering two projects M and N, each of which requires an initial outlay of Rs 50 Lakhs. The expects cash inflows from these projects are</p> <table border="1" data-bbox="298 260 984 449"> <thead> <tr> <th>Year</th> <th>Project M</th> <th>Project N</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12</td> <td>37</td> </tr> <tr> <td>2</td> <td>18</td> <td>24</td> </tr> <tr> <td>3</td> <td>33</td> <td>19</td> </tr> <tr> <td>4</td> <td>36</td> <td>12</td> </tr> </tbody> </table> <p>(a) Narrate the meaning of the PBP for each of the project? (b) If the two projects are mutually exclusive and the cost of the capital is 15%, Which project should the firm invest in (c) If cost of capital is 14%. Narrate the meaning of the modified IRR of each project?</p>	Year	Project M	Project N	1	12	37	2	18	24	3	33	19	4	36	12	Remember	CMBB56.04			
Year	Project M	Project N																			
1	12	37																			
2	18	24																			
3	33	19																			
4	36	12																			
6	<p>The 2 Project A and B require an initial investment of Rs 100000 and the cash inflows generated for the next 5 years are given below</p> <table border="1" data-bbox="298 693 938 911"> <thead> <tr> <th>Year</th> <th>A</th> <th>B</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20000</td> <td>70000</td> </tr> <tr> <td>2</td> <td>40000</td> <td>60000</td> </tr> <tr> <td>3</td> <td>50000</td> <td>50000</td> </tr> <tr> <td>4</td> <td>60000</td> <td>50000</td> </tr> <tr> <td>5</td> <td>70000</td> <td>20000</td> </tr> </tbody> </table> <p>The reinvestment rates are 13% and 19%, Cost of capital is 10% Find out the modified NPV for the both project.</p>	Year	A	B	1	20000	70000	2	40000	60000	3	50000	50000	4	60000	50000	5	70000	20000	Analyze	CMBB56.03
Year	A	B																			
1	20000	70000																			
2	40000	60000																			
3	50000	50000																			
4	60000	50000																			
5	70000	20000																			
7	<p>A Project requires an initial capital outlay of Rs 100000 with no salvage value and will be depreciated on a straight line basis for tax purpose the Earnings Before Depreciation and Taxes (EBDT) during its 5 Years life are</p> <table border="1" data-bbox="298 1121 1036 1234"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>EBDT (Rs)</td> <td>35000</td> <td>38000</td> <td>40000</td> <td>30000</td> <td>26000</td> </tr> </tbody> </table> <p>The corporate tax rate is 30% and the company evaluates its capital budgeting project at 10% of capital. Advice the company whether the project should be accepted (a) when there is no inflation and (b) when there is inflation at the rate of 12% per annum and the state gross earnings are also expected to grow at this rate at the rate of inflation.</p>	Year	1	2	3	4	5	EBDT (Rs)	35000	38000	40000	30000	26000	Analyze	CMBB56.03						
Year	1	2	3	4	5																
EBDT (Rs)	35000	38000	40000	30000	26000																
8	<p>ABC company has a project X Whose cash flows are</p> <table border="1" data-bbox="298 1444 902 1663"> <thead> <tr> <th>Year</th> <th>Cash Flows</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-500000</td> </tr> <tr> <td>1</td> <td>100000</td> </tr> <tr> <td>2</td> <td>300000</td> </tr> <tr> <td>3</td> <td>400000</td> </tr> <tr> <td>4</td> <td>300000</td> </tr> </tbody> </table> <p>The project is discounted first at 12% and then increased to 14%.Find out the NPV at two rates</p>	Year	Cash Flows	0	-500000	1	100000	2	300000	3	400000	4	300000	Remember	CMBB56.03						
Year	Cash Flows																				
0	-500000																				
1	100000																				
2	300000																				
3	400000																				
4	300000																				
9	<p>Calculate multiple IRR from the given information</p> <table border="1" data-bbox="298 1759 821 1906"> <thead> <tr> <th>Year</th> <th>Cash flows</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-3.2(-)</td> </tr> <tr> <td>1</td> <td>20(+)</td> </tr> <tr> <td>2</td> <td>-20(-)</td> </tr> </tbody> </table>	Year	Cash flows	0	-3.2(-)	1	20(+)	2	-20(-)	Analyze	CMBB56.04										
Year	Cash flows																				
0	-3.2(-)																				
1	20(+)																				
2	-20(-)																				

10	A machine costs Rs 10,00,000 and is expected to yield the following net cash return estimated in current price	Analyze	CMBB56.04								
	<table border="1"> <thead> <tr> <th>Year</th> <th>Rs</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>5,00,000</td> </tr> <tr> <td>2</td> <td>8,00,000</td> </tr> <tr> <td>3</td> <td>6,00,000</td> </tr> </tbody> </table>			Year	Rs	1	5,00,000	2	8,00,000	3	6,00,000
	Year			Rs							
1	5,00,000										
2	8,00,000										
3	6,00,000										
The expected rate of inflation is 5% p.a and cost of capital is 15.5% Per annum. Check whether the investment is acceptable											

UNIT-III

CRITICAL ANALYSIS OF APPRAISAL TECHNIQUES

PART-A(SHORT ANSWER QUESTIONS)

1	Obtain the term capital budgeting. Write the principles of capital budgeting as strategic asset allocation?	Remember	CMBB56.05
2	Describe why capital budgeting is called as strategic asset allocation.	Remember	CMBB56.05
3	State the importance of capital budgeting in investment decisions?	Understand	CMBB56.05
4	Discuss the various types of capital budgeting proposals in critical appraisal techniques?	Understand	CMBB56.05
5	Give some of the reasons for importance of capital budgeting decisions?	Remember	CMBB56.05
6	Write the different types of capital budgeting techniques with a neat diagram?	Understand	CMBB56.05
7	Write the advantages and disadvantages payback period in capital budgeting decisions?	Remember	CMBB56.05
8	Narrate the meaning of discounted payback period? Write the formulas for calculating discounted payback period?	Remember	CMBB56.05
9	What do you mean by post pay back method in capital budgeting techniques?	Remember	CMBB56.05
10	Why Bail out pay back method is improved method over payback method in capital budgeting techniques?	Remember	CMBB56.05
11	How do you identify the time value of money through Return on investment technique in capital budgeting techniques?	Understand	CMBB56.06
12	Obtain the term constraints in capital budgeting. Write about single period constraints?	Remember	CMBB56.06
13	State the reasons for simulation analysis serves as a tool to maximize NPV and returns capital budgeting?	Remember	CMBB56.06
14	Write a note on independent cash flows according to Hiller approaches?	Understand	CMBB56.06
15	Describe the mixed condition in the Hiller standard deviation of Net present value.	Understand	CMBB56.06
16	What the use of information in project selection in capital budgeting decision?	Remember	CMBB56.06
17	Discuss the multi period capital constraints in investment decision making?	Understand	CMBB56.06
18	Describe how Terminal value is an advanced technique of evaluating investment proposals.	Understand	CMBB56.06
19	Narrate the meaning of Equivalent annual cost as a method of time adjusted method in capital budgeting techniques	Remember	CMBB56.06

20	Write the advantages and disadvantages of Internal rate of return in capital budgeting techniques?	Understand	CMBB56.06
PART-B(LONG ANSWER QUESTIONS)			
1	Obtain the term capital budgeting. Describe the principles and importance of capital budgeting in investment decisions.	Remember	CMBB56.05
2	Obtain the term non discounted cash flow techniques in capital budgeting. Discuss any two methods of traditional methods in capital budgeting?	Understand	CMBB56.05
3	Do you agree that DCF methods are superior to traditional methods of making investment decisions	Remember	CMBB56.05
4	Narrate the meaning of payback period in traditional methods of capital budgeting? Narrate the meaning of the difference between post payback and payback period methods?	Remember	CMBB56.05
5	Narrate the meaning of bail out pay back method? Discuss the differences between bailout payback period method and discounted payback method?	Understand	CMBB56.05
6	What return on investment in capital budgeting techniques? Write the advantages and disadvantages of Internal rate of return?	Understand	CMBB56.05
7	State the importance of profitability index technique for simple and divisible projects with single period capital constraints?	Remember	CMBB56.05
8	State the importance of profitability index technique for simple and divisible projects with single period capital constraints?	Remember	CMBB56.05
9	Critically analyze the appraisal technique of capital budgeting	Understand	CMBB56.05
10	Narrate the meaning of Payback Period? Describe different types of payback period methods and their relative merits and limitations.	Understand	CMBB56.05
PART-C(MULTIPLE CHOICE QUESTIONS)			
11	Discuss the 3 different cases of Hillier expected Net present Value and standard deviation of Net present Value?	Remember	CMBB56.06
12	Describe the various steps involved in Hertz Simulation procedure with a neat diagram	Remember	CMBB56.06
13	Write a short note on (a) Equivalent annual Cost (b) Terminal Value (c) Significance of information on project selection.	Understand	CMBB56.06
14	Briefly Describe the significance of information and data bank in project selections during implementation of the project?	Understand	CMBB56.06
15	Describe Terminal Value method with the help of an example	Remember	CMBB56.06
16	Write a brief note on Hertz simulation and Hillier approaches as the tools of critical appraisal techniques in the investment decisions	Understand	CMBB56.06
17	Why investment decision-making which extends more than one period is considered as complex and not completely resolved? Write a note on multi-period capital constraints. Give example	Understand	CMBB56.06
18	Why Conflicts arise between NPV and IRR?	Remember	CMBB56.06
19	Narrate the meaning of Profitability index? Narrate the meaning of a superior ranking criterion, Probability index or NPV?	Understand	CMBB56.06
20	Narrate the meaning of return on Investment? What are the different ways in which return on investment method can be used? Describe with illustration	Understand	CMBB56.06

PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)

1	<p>For each of the following project compute</p> <p>(i) Pay back period</p> <p>(ii) Post-back profitability</p> <p>(iii) Post-back profitability index</p> <p>(i) Initial outlay Rs 50000 Annual cash inflows (after tax but before depreciation) Rs 10000 Estimated life 8 Years</p> <p>(ii) Initial outlay Rs 50000 Annual cash inflows(after tax but before depreciation) First three years Rs 15000 Next Five Years Rs 5000 Estimated life 8 Years Salvage Rs 8000</p>	Remember	CMBB56.05																					
2	<p>Determine bail-out payback for the following information</p> <table border="1" data-bbox="289 684 1013 1003"> <thead> <tr> <th>Year</th> <th>Cash Flows(Rs)</th> <th>Salvage value at the end of the year</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>(1,00,000)</td> <td>50,000</td> </tr> <tr> <td>1</td> <td>30,000</td> <td>40,000</td> </tr> <tr> <td>2</td> <td>20,000</td> <td>35,000</td> </tr> <tr> <td>3</td> <td>25,000</td> <td>20,000</td> </tr> <tr> <td>4</td> <td>20,000</td> <td>10,000</td> </tr> <tr> <td>5</td> <td>55,000</td> <td>10,000</td> </tr> </tbody> </table>	Year	Cash Flows(Rs)	Salvage value at the end of the year	0	(1,00,000)	50,000	1	30,000	40,000	2	20,000	35,000	3	25,000	20,000	4	20,000	10,000	5	55,000	10,000	Analyze	CMBB56.06
Year	Cash Flows(Rs)	Salvage value at the end of the year																						
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3	25,000	20,000																						
4	20,000	10,000																						
5	55,000	10,000																						
3	<p>A chemical company is considering investment in a project that costs Rs 5,00,000, The life of the project is 5 years and estimated salvage value is zero. Tax rate is 55%. The company uses straight line depreciation and proposed project has estimated earnings before depreciation and before tax as follows</p> <table border="1" data-bbox="289 1192 896 1402"> <thead> <tr> <th>Years</th> <th>Earnings before depreciation and tax (Rs)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1,00,000</td> </tr> <tr> <td>2</td> <td>1,00,000,</td> </tr> <tr> <td>3</td> <td>1,50,000</td> </tr> <tr> <td>4</td> <td>1,50,000</td> </tr> <tr> <td>5</td> <td>2,50,000</td> </tr> </tbody> </table> <p>Determine the following</p> <p>(i) Payback Period</p> <p>(ii) Average Rate of return</p>	Years	Earnings before depreciation and tax (Rs)	1	1,00,000	2	1,00,000,	3	1,50,000	4	1,50,000	5	2,50,000	Understand	CMBB56.06									
Years	Earnings before depreciation and tax (Rs)																							
1	1,00,000																							
2	1,00,000,																							
3	1,50,000																							
4	1,50,000																							
5	2,50,000																							
4	<p>The initial cash outlay of the project is Rs 1,00,000 and it is generated cash inflows of Rs 40,000; Rs 30,000; Rs 50,000; Rs 20,000. Assume a 10% rate of discount. Calculate profitability index</p>	Understand	CMBB56.06																					
5	<p>Evaluate the Following proposal using terminal value method</p> <p>(i) Original Outlay Rs 8,00,000</p> <p>(ii) Life of the project 3 Years</p> <p>(iii) Cash inflows Rs 4,00,000 p.a for the three years</p> <p>(iv) Cost of the capital 10%</p> <p>Expected interest rates at which the cash flows will be re-invested</p>	Understand	CMBB56.05																					

		Year	%																																				
		1	8																																				
		2	8																																				
		3	8																																				
6	A company has determined the following probabilities for net cash flows for three years generated by a project	Remember	CMBB56.06																																				
	<table border="1"> <thead> <tr> <th colspan="2">Year 1</th> <th colspan="2">Year 2</th> <th colspan="2">Year 3</th> </tr> <tr> <th>Cash Flows</th> <th>Probability</th> <th>Cash flows</th> <th>Probability</th> <th>Cash flows</th> <th>Probability</th> </tr> </thead> <tbody> <tr> <td>2000</td> <td>0.2</td> <td>2000</td> <td>0.4</td> <td>2000</td> <td>0.1</td> </tr> <tr> <td>3000</td> <td>0.3</td> <td>3000</td> <td>0.2</td> <td>3000</td> <td>0.5</td> </tr> <tr> <td>4000</td> <td>0.4</td> <td>4000</td> <td>0.1</td> <td>4000</td> <td>0.2</td> </tr> <tr> <td>5000</td> <td>0.1</td> <td>5000</td> <td>0.3</td> <td>5000</td> <td>0.2</td> </tr> </tbody> </table> <p>Calculate the expected net cash flows of multi-period. Also Calculated the present value of the expected cash flows using 12% discount rate.</p>	Year 1		Year 2		Year 3		Cash Flows	Probability	Cash flows	Probability	Cash flows	Probability	2000	0.2	2000	0.4	2000	0.1	3000	0.3	3000	0.2	3000	0.5	4000	0.4	4000	0.1	4000	0.2	5000	0.1	5000	0.3	5000	0.2		
Year 1		Year 2		Year 3																																			
Cash Flows	Probability	Cash flows	Probability	Cash flows	Probability																																		
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4000	0.4	4000	0.1	4000	0.2																																		
5000	0.1	5000	0.3	5000	0.2																																		
7	A project involving an Outlay of Rs 10 Million has the following benefits associated with it	Remember	CMBB56.05																																				
	<table border="1"> <thead> <tr> <th colspan="2">Year 1</th> <th colspan="2">Year 2</th> <th colspan="2">Year 3</th> </tr> <tr> <th>Cash flows(Rs in min)</th> <th>Probability</th> <th>Cash flows (Rs in min)</th> <th>probability</th> <th>Cash flows(Rs in min)</th> <th>Probability</th> </tr> </thead> <tbody> <tr> <td>3</td> <td>0.3</td> <td>4</td> <td>0.4</td> <td>4</td> <td>0.2</td> </tr> <tr> <td>5</td> <td>0.5</td> <td>6</td> <td>0.4</td> <td>5</td> <td>0.5</td> </tr> <tr> <td>7</td> <td>0.2</td> <td>8</td> <td>0.2</td> <td>6</td> <td>0.3</td> </tr> </tbody> </table> <p>Assuming the risk free rate as 10%. Calculate the expected net present value and the standard deviation of net present value</p> <p>(a) If the cash flows are independent</p> <p>(b) If the cash flows are perfectly correlated</p>	Year 1		Year 2		Year 3		Cash flows(Rs in min)	Probability	Cash flows (Rs in min)	probability	Cash flows(Rs in min)	Probability	3	0.3	4	0.4	4	0.2	5	0.5	6	0.4	5	0.5	7	0.2	8	0.2	6	0.3								
Year 1		Year 2		Year 3																																			
Cash flows(Rs in min)	Probability	Cash flows (Rs in min)	probability	Cash flows(Rs in min)	Probability																																		
3	0.3	4	0.4	4	0.2																																		
5	0.5	6	0.4	5	0.5																																		
7	0.2	8	0.2	6	0.3																																		
8	Janakiram is considering an investment which requires a current outlay of Rs 25,000. The expected value and standard deviation of cash flows are	Analyze	CMBB56.06																																				
	<table border="1"> <thead> <tr> <th>Years</th> <th>Expected value (Ct)</th> <th>σ</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>12,000</td> <td>5,000</td> </tr> <tr> <td>2</td> <td>10,000</td> <td>6,000</td> </tr> <tr> <td>3</td> <td>9,000</td> <td>5,000</td> </tr> <tr> <td>4</td> <td>8,000</td> <td>6,000</td> </tr> </tbody> </table> <p>The cash flows are perfectly correlated. Calculate NPV and Standard deviation of NPV of this investment $i=8\%$</p>	Years	Expected value (Ct)	σ	1	12,000	5,000	2	10,000	6,000	3	9,000	5,000	4	8,000	6,000																							
Years	Expected value (Ct)	σ																																					
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2	10,000	6,000																																					
3	9,000	5,000																																					
4	8,000	6,000																																					
9	Y Ltd is considering the purchases of a machine. The cost of a machine is Rs 80,000. It has an expected life of 5 Years. Net profit before tax and after depreciation during the expected life of the machine are as follows	Analyze	CMBB56.06																																				
	<p>(1) 30,000</p> <p>(2) 15,000</p> <p>(3) 20,000</p> <p>(4) 40,000</p> <p>(5) 35,000</p> <p>The average rate of tax is taken at 50%.Calculate the method of average return on average investment</p>																																						

10	<p>Tata company is considering to purchases a machine. Two machines X and Y are available, each costing Rs 20,00,000. In comparing the profitability of machine a discount rate of 12% is to be used. Profits after taxes are expected to be as follows</p> <table border="1"> <thead> <tr> <th>Year</th> <th>2009</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> </tr> </thead> <tbody> <tr> <td>Machine (in Lakh)</td> <td>6</td> <td>8</td> <td>10</td> <td>6</td> <td>4</td> </tr> <tr> <td>Machine (in Lakh)</td> <td>2</td> <td>6</td> <td>8</td> <td>12</td> <td>8</td> </tr> </tbody> </table> <p>You are required to indicate which of the machine would of the machines would be profitable using Average Rate of Return method, If expected life of the machine is 5 Year.</p>	Year	2009	2010	2011	2012	2013	Machine (in Lakh)	6	8	10	6	4	Machine (in Lakh)	2	6	8	12	8	Analyze	CMBB56.06
Year	2009	2010	2011	2012	2013																
Machine (in Lakh)	6	8	10	6	4																
Machine (in Lakh)	2	6	8	12	8																

UNIT-IV

STRATEGIC ANALYSIS OF SELECTED INVESTMENT DECISIONS

PART-A (SHORT ANSWER QUESTIONS)

1	Obtain the term lease financing as a source of financing capital assets?	Remember	CMBB56.07
2	Discuss the steps involved in lease versus borrow to buy decision which focuses on equalizing financial risk?	Understand	CMBB56.08
3	Discuss the essential elements of leasing in detail?	Remember	CMBB56.07
4	What are the differences between financial lease and operating lease in lease financing?	Understand	CMBB56.08
5	Give various types of lease in lease financing?	Understand	CMBB56.08
6	Narrate the steps involved in the process of leasing?	Remember	CMBB56.07
7	Examine the factors that have been responsible for the growth of Indian leasing?	Understand	CMBB56.08
8	Describe the characteristics of lease financing contract.	Remember	CMBB56.07
9	Discuss the different factors that affect the leasing or buying decisions?	Understand	CMBB56.08
10	State the features and characteristics of hire purchase in which hirer can purchase the asset later?	Remember	CMBB56.07
11	What are the essential ingredients of a contract of a sale in Legal framework for hire purchasing	Remember	CMBB56.07
12	Explore the disadvantages to buyer in hire purchase system?	Understand	CMBB56.07
13	Narrate the meaning of sales tax in hire purchase system? State some of the aspects of sales tax in hire purchase system?	Remember	CMBB56.08
14	Explore the differences between hire purchase and installment sale in investment decisions?	Understand	CMBB56.07
15	Describe various factors considered in lease or hire purchase contract?	Understand	CMBB56.08
16	Explore the differences between lease finance and installment sale in investment decisions?	Remember	CMBB56.07
17	Obtain the term risk. Write a note on risk in leasing contract?	Remember	CMBB56.08
18	Write a short note on Cross border leasing?	Remember	CMBB56.07
19	Narrate the meaning of flat interest rate and effective interest rate in hire purchase?	Remember	CMBB56.07
20	Explain the different unconventional promotional media used in the	Understand	CMBB56.08

	integrated marketing communication?		
PART-B (LONG ANSWER QUESTIONS)			
1	Obtain the term lease financing. Discuss in detail about the broad classification of leasing in strategic investment decisions?	Understand	CMBB56.07
2	Write characteristics of leasing and steps involved in the process of lease financing?	Remember	CMBB56.08
3	Write the differences between borrowing and procuring? Discuss the factors affecting the decisions of leasing or buying?	Understand	CMBB56.07
4	Obtain the term hire purchase. Write the features and characteristics of hire purchase transaction?	Remember	CMBB56.07
5	Discuss the various forms of income tax benefits to both hire vendor and the hire purchaser in hire purchase as a financing alternative	Understand	CMBB56.07
6	State the advantages to Hire purchaser, seller, and to society in hire purchase system?	Understand	CMBB56.08
7	Describe the need of considering only after tax present value of the two alternatives in evaluation of lease or buy decisions.	Remember	CMBB56.08
8	Comment on “financial evaluation of lease- Break even lease rental (BELR) ”in leasing as a financing decision	Remember	CMBB56.07
9	Describe in detail about risks associated with lease financing.	Remember	CMBB56.08
10	Describe the advantages of leasing as investment decisions?	Understand	CMBB56.08
11	Write Short note on (a) Leasing Vs Hire Purchase (b) Leasing Vs Operating Risk (c) Borrowing Vs Procuring	Understand	CMBB56.07
12	Discuss lease evaluation from the angle of lease	Remember	CMBB56.08
13	Compare and contrast leasing, hire purchasing, installment credit and outright purchases options from the angle of tax benefits	Remember	CMBB56.08
14	(a) Bring out the differences between leasing and operating risk (b) Discuss the merits and limitations of hire purchase system	Remember	CMBB56.07
15	(a) When is financial lease mutually beneficial to the lessor and lessee? (b) Narrate the meaning of an equivalent loan amount?	Remember	CMBB56.07
16	“It makes sense for companies that pay no taxes to lease from companies that do” Describe	Understand	CMBB56.08
17	Narrate the meaning of Leveraged Lease? What are its merits and demerits?	Remember	CMBB56.08
18	Obtain the term Leasing? Describe the evolution of leasing in India State the characteristics of Leasing	Remember	CMBB56.07
19	Discuss the Various types of lease arrangements	Understand	CMBB56.08
20	Who are the parties involved in leasing?	Remember	CMBB56.08
PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)			
1	Describe the Various methods of interest calculation and reporting in hire purchase	Understand	CMBB56.07
2	Describe the impact of income tax on a hire purchase transaction	Understand	CMBB56.08
3	Write about IRR in financial evaluation of leasing	Understand	CMBB56.07

4	Describe the potential of leasing in India. What are the determinants of success of leasing in India?	Understand	CMBB56.07
5	A financial Ltd company has structured a consumer credit deal for Rs 8, 00,000. The monthly repayment period are 6, 18, 30 months. The Equated Monthly Installments (EMI) are 1,35,000, 46,000, and 29000. Compute flat and effective rate of interest and each option	Understand	CMBB56.08
6	Compute Effective rate of Interest (ERI) for the following information Cash down payment = 25% EMI's = 18 Flat rate of interest = 16.5 Payment of installment in (a) Advance (b) Arear	Remember	CMBB56.07
7	ABC Ltd. Offers a hire purchase finance to a customers on Acquisition of equipment of Rs 1,00,000. The installments are to be paid annually for 10 Years and the flat rate of interest is 12%. Calculate the amount of interest and installment. Show how the total interest will be distributed over the period of 10 years	Understand	CMBB56.08
8	Describe the impact of tax on leasing?	Remember	CMBB56.08
9	Briefly Describe the risks associated with leasing	Remember	CMBB56.07
10	Briefly Describe the financial evaluation of leasing?	Understand	CMBB56.08
UNIT-V			
FINANCING DECISIONS			
PART-A(SHORT ANSWER QUESTIONS)			
1	Obtain the term merger. How the various ways of mergers can takes place?	Understand	CMBB56.09
2	Discuss the different types of mergers that a company can merge with another company?	Understand	CMBB56.10
3	What are the reasons behind mergers which contribute for economic development of the firm?	Understand	CMBB56.09
4	Describe regulatory framework or legal aspects of mergers.	Remember	CMBB56.10
5	Write about any two efficiency theories that believe that mergers and some other forms of asset reinstallation have the ability that leads to social benefits?	Remember	CMBB56.09
6	Describe any two methods used in mergers and acquisition valuations.	Understand	CMBB56.10
7	Discuss the various financial benefits of mergers that a company can merge with another company?	Remember	CMBB56.10
8	Obtain the term acquisitions. Write the some of the features of acquisitions?	Understand	CMBB56.09
9	Write a note on a) Horizontal acquisitions b) Vertical acquisitions	Understand	CMBB56.10
10	Discuss some of the economic rationale for mergers and acquisitions?	Remember	CMBB56.09
11	Write the differences between mergers and acquisitions that a company can merge with another company?	Remember	CMBB56.09
12	Briefly Describe about takeovers in financing decisions?	Understand	CMBB56.09

13	Describe the government guidelines for takeovers in financing decisions.	Understand	CMBB56.09
14	Discuss the strategies adopted by acquiring firm in order to take over the target firm?	Remember	CMBB56.09
15	Describe some of the anti takeover strategies that are adopted by target companies in order to repel against offered.	Understand	CMBB56.10
16	State some regulations of mergers and takeovers in India?	Remember	CMBB56.10
17	Discuss the summary of legal procedures for merger or acquisition laid down in the companies act, 1956?	Remember	CMBB56.10
18	Obtain the term diversification. Write a note on a) Concentric diversification b) Conglomerate diversification	Remember	CMBB56.10
19	What are the reasons for the failure of mergers?	Remember	CMBB56.10
20	.Hoe does conglomerate merger differ from Horizontal merger	Remember	CMBB56.10
PART-B(LONG ANSWER QUESTIONS)			
1	Obtain the term mergers. Discuss the various types of mergers in which a company can merge with another company?	Remember	CMBB56.09
2	How do you evaluate the returns and cash flows of mergers through an appropriate financial assessment?	Remember	CMBB56.09
3	What do you mean by efficiency theories? Discuss the efficiency theories that have been combined with mergers in detail?	Understand	CMBB56.09
4	State the different methods used in mergers and acquisition valuations in detail?	Understand	CMBB56.10
5	Obtain the term acquisitions. Discuss the various types of acquisition strategies in financing decisions?	Remember	CMBB56.09
6	Obtain the term takeovers. Write about the takeover strategies and anti takeover strategies in detail?	Understand	CMBB56.09
7	Describe the Security Exchange Board of India (SEBI) guideline for takeovers in India.	Understand	CMBB56.09
8	Obtain the term diversification. Discuss the types of diversification based on the applied criteria?	Remember	CMBB56.10
9	What are the legal procedures laid down in the company's act,1956 for merger or acquisition in India?	Understand	CMBB56.09
10	Narrate the meaning of the difference between mergers and acquisitions that a company can amalgamate with other?	Remember	CMBB56.10
11	Narrate the meaning of acquisition and takeover? What are the different types of acquisition? List out its advantages and disadvantages	Understand	CMBB56.09
12	Describe the financial evaluation of merger? Write in detail about the regulatory framework for mergers	Understand	CMBB56.09
13	Describe the difference between related and unrelated diversification? What are the conditions for success in diversification	Understand	CMBB56.09
14	Describe in detail about the cost and benefit of a merger? What are the differences between mergers and acquisitions?	Remember	CMBB56.09
15	Distinguish between cash and equity for financial mergers with the properties and features of cash and equity?	Understand	CMBB56.09
16	Describe how mergers and acquisitions strategies are framed and	Remember	CMBB56.09

	implemented.																							
17	Obtain the term Diversification. Describe the types Formulation and risks involved in diversification	Remember	CMBB56.09																					
18	What are the problems faced by firms in achieving acquisition success	Remember	CMBB56.09																					
PART-C (PROBLEM SOLVING AND CRITICAL THINKING QUESTIONS)																								
1.	“Conglomerate firm shares tend to have a higher value due to lower cost of capital” Elucidate the statement	Remember	CMBB56.10																					
2	Describe the popularity of mergers and Acquisitions in India	Understand	CMBB56.09																					
3	Describe the role of investment banker in merger. State how mergers are economical for the country	Understand	CMBB56.09																					
4	Describe how mergers and acquisitions strategies are framed and implemented.	Remember	CMBB56.09																					
5.	Discuss Various theories of mergers. Evaluate each theory	Understand	CMBB56.10																					
6.	Critically examine the role of government is avoiding hostile takeover	Remember	CMBB56.09																					
7	<p>Olive Ltd. Is acquiring all the outstanding equity shares of star Ltd. By exchanging on share of its own equity share of star Ltd. Olive Ltd has a policy of keeping 50% of its capital structure in debt. The capital structure of both these firms before the merger is as follows</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>capital</th> <th>Olive Ltd (in lakhs)</th> <th>Star Ltd (in lakhs)</th> </tr> </thead> <tbody> <tr> <td>Equity Capital (of Rs 100 each)</td> <td>20</td> <td>5</td> </tr> <tr> <td>Retained Earnings</td> <td>25</td> <td>25</td> </tr> <tr> <td>14% Preferences Shares</td> <td>5</td> <td>-</td> </tr> <tr> <td>13% Debt</td> <td>50</td> <td>-</td> </tr> </tbody> </table> <p>(a) What will be the capital structure of the merged firm be? Determine the parentage share of the debt in the merged firm (b) Has the merged firms financial risk declined (c) How much additional debt can be combined firm borrow to retail a capital structure, 50% of which is debt?</p>	capital	Olive Ltd (in lakhs)	Star Ltd (in lakhs)	Equity Capital (of Rs 100 each)	20	5	Retained Earnings	25	25	14% Preferences Shares	5	-	13% Debt	50	-	Remember	CMBB56.09						
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8	<p>Jay manufacturing company is going to acquire OM Distributors. The shareholders of OM distributors will get 0.9 share of jay manufacturing company for each share held by them. The relevant data for the two companies are as follows</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>Jay</th> <th>OM</th> </tr> </thead> <tbody> <tr> <td>Net Sales(in lakhs)</td> <td>600</td> <td>500</td> </tr> <tr> <td>Profit after tax (In Lakhs)</td> <td>60</td> <td>15</td> </tr> <tr> <td>Number of Shares (in lakhs)</td> <td>15</td> <td>5</td> </tr> <tr> <td>Earning per share (Rs)</td> <td>4</td> <td>3</td> </tr> <tr> <td>Market value per share (Rs)</td> <td>45</td> <td>30</td> </tr> <tr> <td>Price-earnings Ratio</td> <td>11.25</td> <td>10</td> </tr> </tbody> </table> <p>For the combined company (after merger) you need to calculate (a) EPS (b) P/E Ratio (c) Market value per share (d) Number of shares (e) Total market Capitalization Also calculate the premium paid by jay Co to the shareholders of OM distributors</p>		Jay	OM	Net Sales(in lakhs)	600	500	Profit after tax (In Lakhs)	60	15	Number of Shares (in lakhs)	15	5	Earning per share (Rs)	4	3	Market value per share (Rs)	45	30	Price-earnings Ratio	11.25	10	Remember	CMBB56.09
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	<p>companies are as given below</p> <table border="1"> <thead> <tr> <th></th> <th>XYZ</th> <th>PQR</th> </tr> </thead> <tbody> <tr> <td>Profit after tax (in Lakhs)</td> <td>150</td> <td>30</td> </tr> <tr> <td>Number of shares (in lakhs)</td> <td>25</td> <td>8</td> </tr> <tr> <td>Earnings Per Share (Rs)</td> <td>6.00</td> <td>3.75</td> </tr> <tr> <td>Market Price Per share(Rs)</td> <td>78.00</td> <td>33.75</td> </tr> <tr> <td>Price earnings ratio</td> <td>13</td> <td>9</td> </tr> </tbody> </table> <p>Calculate the earnings per share of the surviving firm after merger. If the price earnings Ratio falls to 12 after the merger, Narrate the meaning of the premium received by the shareholders of PQR (using the surviving firms new price) is the merger beneficial foe XYZ's Shareholders?</p>		XYZ	PQR	Profit after tax (in Lakhs)	150	30	Number of shares (in lakhs)	25	8	Earnings Per Share (Rs)	6.00	3.75	Market Price Per share(Rs)	78.00	33.75	Price earnings ratio	13	9		
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10	<p>The following data pertains to firm A and Firm B</p> <table border="1"> <thead> <tr> <th></th> <th>Firm 'A'</th> <th>Firm 'B'</th> </tr> </thead> <tbody> <tr> <td>Present earnings (in Million)</td> <td>20</td> <td>4</td> </tr> <tr> <td>Shares (in Million)</td> <td>10</td> <td>1</td> </tr> <tr> <td>Price/earnings Ratio</td> <td>18</td> <td>10</td> </tr> </tbody> </table> <p>Required: Case1: If the two firms were to merge and the exchange ratio were one share of the firm 'A' for each share firm 'B' , what would be the initial Impact on EPS on the two firms? Case 2 : If the firm 'A' wants to takeover firm 'B' by offering a premium of 20% over the market price of share, Narrate the meaning of the ratio of exchange of stock and how many new shares will be issued</p>		Firm 'A'	Firm 'B'	Present earnings (in Million)	20	4	Shares (in Million)	10	1	Price/earnings Ratio	18	10	Remember	CMBB56.10						
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Prepared by:

Mrs. G Joseph Mary, Assistant Professor, MBA

HOD, MBA.