GN-377

V Semester B.B.A. Examination, December - 2019
(CBCS) (F+R) (2016-17 and Onwards)
BUSINESS ADMINISTRATION
5.5 : ELECTIVE PAPER - I ADVANCED FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

Instruction : *Answers should be written in* **English** *only.*

SECTION - A

Answer **any five** sub-questions. Each sub-question carries **2** marks.   **5x2=10**

1. (a)   What is risk analysis ?

    (b)   What is sensitivity analysis ?

    (c)   Define capital structure.

    (d)   What do you mean by bonus issue ?

    (e)   What is a stock dividend ?

    (f)   What is factoring ?

    (g)   What is aging schedule ?

SECTION - B

Answer **any three** questions. Each question carries **six** marks.   **3x6=18**

2. Explain the different techniques of measuring risks.

3. Write the assumptions and arguments of MM Model.

4. Write the importance of capital structure.

5. What is working capital ? Explain the factors determining working capital.

6. What do you mean by business valuation ? Explain the elements of business valuation.

SECTION - C

Answer **any three** questions. Each question carries **fourteen** marks.   **3x14=42**

7. 'A' company limited is considering the purchase of a new investment. Two alternative investments are available A and B, both costing ₹ 1,00,000. Cashflows are expected to be as follows :

Year	Cashflow of Project - A (₹)	Cashflow of Project - B (₹)
1	40,000	50,000
2	35,000	40,000
3	25,000	30,000
4	20,000	30,000

The company has a target return on capital of 10%. Risk premium rate is 2% and 8% respectively for investments A and B. Which project should be preferred for investment ?

8. Following are the details regarding the capital structure of a company.

Type of capital	Book value (₹)	Market value (₹)	Specific cost (%)
Debentures	40,000	38,000	5
Preference Capital	10,000	11,000	8
Equity Capital	60,000	1,20,000	13
Retained Earnings	20,000	-	9

You are required to determine the weighted average cost of capital using :

(i)   Book Value as weights

(ii)   Market Value as weights

9. Furguson and company wishes to arrange overdraft facilities with its Bankers during the period April to June 2019. It will be manufacturing mostly for stock purposes during this period. Prepare a cash budget for the above period from the following data, indicating the extent of the bank overdraft facilities the company will require at the end of each month.

2019	Sales (₹)	Purchases (₹)	Wages (₹)
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	1,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

50 percent of the sales are realised in the month following the sales and the remaining 50 percent in the second month following. Creditors are paid in the month following the month of purchase. Cash at bank on 1st April 2019 (estimated) ₹ 25,000.

10. Find out the relationship of dividend policy and the value of share according to Gordon's model.

Particulars	A	B	C
r=	0.30	0.20	0.15
Ke=	0.20	0.20	0.20
E=	₹ 5	₹ 5	₹ 5

Effect of dividend policy on market value of shares according to Gordon's model when retention ratio is 40% and 60%. Comment on the results.

11. Explain various situations which may call for a formal business valuation.

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