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V Semester B.B.A. Degree Examination, March - 2021

BUSINESS ADMINISTRATION

Advanced Financial Management

(CBCS Scheme 2018 Batch Only)

Paper : FN.5.5 (Elective - 1)

Time : 3 Hours

Maximum Marks : 70

Instructions to Candidates:

Answers should be written in English only.

SECTION - A

Answer any **Five** questions. Each question carries **2** marks.

(5×2=10)

1. a) Mention any two types of risk.
- b) What is sensitivity analysis?
- c) What is cost of debt?
- d) Give the meaning of Net income approach.
- e) What is Scrip dividend?
- f) Mention any two methods of corporate valuation.
- g) The earning per share is Rs. 18 and the current market price is Rs. 150. Compute the cost of equity capital.

SECTION - B

Answer any **Three** questions. Each question carries **Six** marks.

(3×6=18)

2. Explain various techniques of measuring risks.
3. Explain the different theories of capital structure.
4. Distinguish between shares and debentures.
5. a) What is EOQ? Mention any 2 assumptions of EOQ models.
- b) Find out EOQ from the following Annual usage 4000 units, cost of material per unit Rs. 2, cost of placing and receiving one order Rs. 5. Annual carrying cost of one unit 8% inventory value.

[P.T.O.]



6. The following information is available in respect of XYZ Ltd.

Return on investment (r) = 10%

Earnings per share (E) = Rs. 40%

Determine the value of its share using Gordon's model assuming the following.

Situations	D/P Ratio (1-b)	Retention ratio (b)	cost of equity (ke)
a	20	80	20%
b	60	40	16%
c	80	20	14%

SECTION - C

Answer any **Three** questions. Each questions carries **Fourteen** marks. (3×14=42)

7. Write a short notes on :

- Relative valuation method.
- Determinants of working capital.

8. ABC Ltd. is considering two mutually exclusive projects X and Y. Project X costs Rs.40,000 and project Y Rs. 45,000 you have been given below the NPV probability distribution for each project.

Project X		Project Y	
NPV Estimate (Rs.)	Probability	NPV Estimate (Rs.)	Probability
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

- Compute the expected NPV of projects X and Y.
- Compute the risk attached to each project, that is standard deviation of each probability distribution.
- Which project do you consider more risky and why?



9. Calculate the market value of the firm and over all capitalisation and also show the impact of increasing the debt capital upto Rs. 8,00,000 and reducing the debt capital upto Rs.3,00,000 by using Net Income approach.

Total Net Income 1,00,000

Equity capitalisation rate 18%

The existing debt capital 5,00,000

Interest rate per year 6%

10. A company is expecting to have Rs. 16,000 cash in hand on 1st April 2021 and it requests you to prepare cash budget for the three months, April to June 2021. The following information is supplied to you :

Month	Sales (Rs.)	Purchase (Rs.)	Wages (Rs.)	Expenses (Rs.)
February	35,000	22,000	3,000	2,500
March	40,000	28,000	4,500	3,000
April	48,000	30,000	4,500	3,500
May	50,000	34,000	5,500	4,500
June	60,000	31,000	7,000	4,500

Other Information :

- Period of credit allowed by suppliers is two months.
- 25% of sales is for cash and the period of credit allowed to customers for credit sales is one month.
- Delay in payment of wages and expenses one month.
- Income tax Rs. 14,000 is to be paid in June 2021.



11. The following information is available in respect of a firm :

Capitalisation Rate (k_e or k_o) - 10%

Earning per share (EPS) - Rs. 50

Assumed rate of return on investments

- a. 12%
- b. 8%
- c. 10%

You are required to show the effect of dividend policy on market price of shares by applying Walter's Model when dividend pay out ratio is

- a. 0%
 - b. 25%
 - c. 50%
 - d. 100%
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