



QP – 366

V Semester B.B.A. Examination, March/April 2022

(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

1. Answer **any five** sub-questions. **Each** sub-question carries **2** marks. **(5×2=10)**
- Write a short note on financial risk.
  - What do you understand by co-efficient of variation ?
  - Mention any four classifications of cost of capital.
  - Give the meaning of net income approach.
  - State any two factors influencing dividend decisions.
  - Differentiate between gross and net working capital.
  - Write any four salient characteristics of debentures.

SECTION – B

Answer **any three** questions. **Each** question carries **six** marks. **(3×6=18)**

- Explain the importance of risk management.
- Describe what is Weighted Average Cost of Capital (WACC).

P.T.O.



4. Analyse the significance of dividend policy.
5. a) What is "EOQ" of materials ? Write any four assumptions of EOQ model.
- b) Calculate EOQ, Annual usage 6,000 units, cost of material per unit ₹ 20, cost of placing and receiving one order ₹ 60, annual carrying cost of one unit 10% of inventory.
6. The dividend payout ratio of the following three companies is 50%. From the following calculate the value of an equity share of each of these companies by Walter's model.

	Shalini Ltd.	Rakshana Ltd.	Likith Ltd.
E	₹ 24	₹ 24	₹ 24
r	10%	5%	10%
Kc	10%	10%	15%

## SECTION – C

Answer **any three** questions. **Each** question carries **fourteen** marks. **(3×14=42)**

7. a) A company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% debentures. The equity capitalisation rate of the company is 10%. Calculate the value of the firm and overall capitalisation rate according to the Net Income Approach. Ignore income tax.
- b) If the debenture debt is increased to ₹ 3,00,000. What shall be the value of the firm and the overall capitalisation rate ?



8. A company has on its books the following amounts and specific costs of each type of capital.

Type of capital	Book value (₹)	Market value (₹)	Specific costs (%)
Debt	4,00,000	3,80,000	05
Preference	1,00,000	1,10,000	08
Equity	6,00,000	9,00,000	15
Retained earnings	2,00,000	3,00,000	13
	<b>13,00,000</b>	<b>16,90,000</b>	

Determine the weighted average cost of capital using

- i) Book value weights and
- ii) Market value weights.

How are they differing ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

9. ABC Limited has a capital of ₹ 10 lakhs in equity shares of ₹ 100 each. The shares are currently quoted at par. The company proposes declaration of a dividend of ₹ 10 per share at the end of the current financial year. The capitalisation rate for the risk class to which the company belongs is 12%.

What will be the market price of the share at the end of the year, if

- i) A dividend is declared
- ii) A dividend is not declared ?

Assuming that the company pays the dividend and has net profits of ₹ 5,00,000 and makes new investments of ₹ 10 lakhs during the period, how many new shares must be issued ? Use the M.M. Model.



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10. Mentha and Co., wishes to arrange over draft facilities with its bankers during the period April to June 2021, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extend of the bank facilities the company will require at the end of each month.

2021	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	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

**Additional information :**

- 50% of credit sales are realised in the month following sales and the remaining 50% in the second month following .
  - Creditors are paid in the month following the month of purchase.
  - Estimated cash at bank on 1<sup>st</sup> April 2021 ₹ 25,000.
11. Elucidate the valuation of debentures in detail.