



NP – 378

V Semester B.B.A. Examination, February/March 2024
(NEP) (Freshers)

BUSINESS ADMINISTRATION

**Paper – 5.4/5.5 : Advanced Corporate Financial Management
(Elective) (FN 1)**



Time : 2 Hours

Max. Marks : 60

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

SECTION – A

Answer **any six** sub-questions. Each sub-question carries **two** marks. (6×2=12)

1. a) What is meant by unsystematic risk ? Give an example.
- b) What is specific cost of capital ?
- c) What do you mean by a dividend policy ?
- d) What is a ageing schedule ?
- e) Differentiate between gross and net working capital.
- f) Write any four salient characteristics of debentures.
- g) What is coefficient of variation ?
- h) What do you mean by bonus issue ?

SECTION – B

Answer **any three** questions. Each question carries **four** marks. (3×4=12)

2. Briefly explain the various forms of dividend.
3. Laddu Company Ltd., has two projects X and Y, costing ₹ 5,00,000 each. The expected cash inflows and the certainty coefficient are as under :

Year	Project X		Project Y	
	Cash inflow coefficient		Cash inflow coefficient	
1	3,00,000	0.8	2,00,000	0.9
2	4,00,000	0.7	3,00,000	0.8
3	4,50,000	0.9	3,00,000	0.7

Risk free cut-off rate is 10%. Suggest which of the two projects should be preferred ?

P.T.O.

4. A Company issues 10,000, 15% preference shares of ₹ 100/- each, cost of issue is ₹ 5 per share. Calculate the cost of preference capital, if the shares are issued
- at par
 - at a premium of 20%
 - at a discount of 5%.
5. Describe what is Weighted Average Cost of Capital (WACC).
6. Explain the different techniques of measuring risks.

SECTION – C

Answer any three questions. Each question carries twelve marks. (3×12=36)

7. ZMSR Company Limited is considering the purchase of a new investment. Two alternative investments are available A and B, both costing ₹ 1,00,000. Cash flows are expected to be as follows :

Years	Cash flow of Project – A (₹)	Cash flow 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 investment A and B. Which Project should be preferred for investment ?

8. a) A Company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% debentures. The 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 ?

9. Coal 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
	13,00,000	16,90,000	

Determine the WACC using

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

How are they differing ? Can you think of a situation where the WACC would be the same using either of the weights ?

10. Z Pharma Company belongs to a risk class of which the approximate P/E Ratio is 12% currently has 40,000 Equity shares at ₹ 100 each. The firm is contemplating to declare the dividend of ₹ 10 per share at the end of financial year which has just started. Given the assumptions of Modigliani and Miller, answer the following questions :
- i) What will be the price of the share at the end of the year ?
 - a) If dividend is not declared.
 - b) If dividend is declared.
 - ii) Assuming that the company pays the dividend has a net income (Y) of ₹ 5,00,000 and makes new investment of ₹ 10,00,000 during the period. How many new shares must be issued ?
11. Discuss reasons for Corporate Restructuring.
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