NP – 384

V Semester B.B.A. Examination, January/February 2025
(NEP) (Freshers/Repeaters)
BUSINESS ADMINISTRATION
Paper – 5.4/5.5 : Advanced Corporate Financial Management (Elective) (FN 1)

Time : 2½ Hours Max. Marks : 60

***Instruction** : Answers 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 financial risk ?
   b) What is explicit cost of capital ?
   c) Name any two factors influencing dividend policy.
   d) What do you mean by capital structure ?
   e) What is vertical merger ?
   f) How do you calculate value of levered firm according to MM approach ?
   g) What is sensitivity technique ?
   h) State the difference between risk and uncertainty.

SECTION – B

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

2. A company has EBIT of ₹ 1,00,000. It expects a return on its investment at a rate of 12.5%. You are required to find out the total value of the firm according to the Miller-Modigliani theory.

3. There are two projects X and Y. Each involves an investment of ₹ 40,000. The expected cash inflows and the certainty coefficients are as under :

Year	Project X		Project Y	
	Cash inflow	Certainty coefficient	CI	CCE
1	25,000	0.8	20,000	0.9
2	20,000	0.7	30,000	0.8
3	20,000	0.9	20,000	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, 10% preference shares of ₹ 100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹ 2 per share. Calculate cost of preference capital.

5. Explain briefly any four reasons for mergers.

6. Explain briefly any four techniques of measuring risks.

SECTION – C

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

7. XYZ company has given the following possible cash inflows for two of its Projects X and Y out of which are they wish to undertake together with their associative probabilities both the projects will require an equal investment of ₹ 5,000.

Possible Event	Project X		Project Y	
	Cash inflow	Probability	Cash inflow	Probability
A	4,000	0.1	12,000	0.1
B	5,000	0.2	10,000	0.15
C	6,000	0.4	8,000	0.5
D	7,000	0.2	6,000	0.15
E	8,000	0.1	4,000	0.1

Which project is more risky based on standard deviation method and comment on the consistency of the projects using coefficient of variation method.

8. The Firms A and B are identical in all respects including risk factors except for debt equity mix. Firm A has issued 12% debentures of ₹ 15,00,000 while B has issued only equity. Both the firms earn 30% before interest and taxes on their total assets of ₹ 25,00,000. Assuming a tax rate of 50% and capitalisation rate of 20% for an all equity company, you are required to compute the value of the two firms using (i) NI approach and (ii) NOI approach.

9. A company has the following capital structure and after-tax costs for the different sources of funds used :

Sources of Funds	Amount (₹)	After-tax cost (%)
Debt	15,00,000	5
Preference shares	12,00,000	10
Equity shares	18,00,000	12
Retained earnings	15,00,000	11
Total	**60,00,000**	

You are required to compute the weighted average cost of capital.

10. Following are the details regarding three companies A Ltd., B Ltd. and C Ltd.

A Ltd.	**B Ltd.**	**C Ltd.**
r = 15%	r = 5%	r = 10%
K_e = 10%	K_e = 10%	K_e = 10%
E = ₹ 8	E = ₹ 8	E = ₹ 8

Calculate the value of an equity share of each of these companies applying Walter's model when dividend payout ratio is a) 50% b) 75% c) 25%. What conclusions do you draw ?

11. What do you mean by Mergers and Acquisitions ? Explain in detail the types of mergers.