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**V Semester B.B.M. Examination, Nov./Dec. 2014
(Semester Scheme) (2014-15 and Onwards) (Fresh)
BUSINESS MANAGEMENT**

5.6 : Elective Paper – I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

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

SECTION – A

1. Answer **any eight** questions. **Each** question carries **two** marks. **(8×2=16)**
- Define Capital Budgeting.
 - What is certainty equivalent method in capital budgeting ?
 - What is marginal cost of capital ?
 - X Ltd. issues ₹ 50,000, 8% debentures at par. The tax rate applicable is 50%.
Compute the cost of debt capital.
 - What is optimal capital structure ?
 - Mention the assumptions of capital structure theories.
 - What is scrip dividend ?
 - Mention the different types of working capital.
 - What is operating cycle ?
 - What is free cash flow to the firm ?

SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks. **(3×8=24)**

- Explain briefly the types of risks.
- Explain briefly the types of dividend policy.
- Explain in brief the steps followed under DCF approach in valuing a firm.
- Calculate debtors turnover and average collection period ratio from the following information.

Total sales ₹ 5,00,000

Cash sales ₹ 1,20,000

Average Debtors ₹ 95,000

Assume 360 days in a year.

P.T.O.



SECTION – C

Answer Q. No. **10** and **any 3** of the remaining. **Each** question carries **fifteen** marks.

(4×15=60)

6. From the following information, ascertain which project is more risky on the basis of standard deviation and co-efficient of variation.

Project – A		Project – D	
Cash Inflows	Probabilities	Cash Inflows	Probabilities
2000	0.1	2000	0.1
4000	0.3	4000	0.2
6000	0.2	6000	0.4
8000	0.2	8000	0.2
10000	0.2	10000	0.1

7. ABC Ltd. belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 5000 shares selling at ₹ 100 each. The firm is contemplating the declaration of dividend of ₹ 6 per share at the end of the current financial year. The company expects to have a net income of ₹ 50,000 and has a proposal for making new investments of ₹ 1,00,000.

Show that under the MM hypothesis, the payment of dividend does not affect the value of the firm.

8. ABC Ltd. sells its products on a gross profit of 20% on sales. The following information is extracted.

	₹
Sales (3 months credit)	40,00,000
Raw materials	12,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing Expenses (paid one month in arrears)	12,00,000
Administration expenses (Paid one month in arrears)	4,80,000
Sales promotion expenses (Payable half yearly in advance)	2,00,000

The company enjoys one month credit from the suppliers of raw materials and maintain two months stock of raw materials and a half months finished goods. Cash balance is ₹ 1,00,000.

Findout the working capital requirements for the company.



9. Roy and Sons Ltd. wants you to prepare the cash budget for 3 months from April to June 2014. The following information is given.

Month	Credit Sales	Credit Purchases	Wages	Overheads
January	1,60,000	85,000	32,000	18,000
February	1,85,000	92,000	37,000	21,000
March	2,10,000	1,00,000	42,000	23,500
April	2,45,000	1,20,000	49,000	27,000
May	1,78,000	90,000	35,000	19,400
June	1,82,000	98,000	36,000	20,000

Additional information :

- a) Period of credit allowed to debtors is 2 months
- b) Period of credit allowed by creditors is 1 month
- c) Lag in payment of wages and overheads is 1 month
- d) Expected cash sales every month is ₹ 15,000
- e) Expenditure on machinery is payable in April ₹ 50,000
- f) Expected cash balance in April is ₹ 10,500.

10. J.K. Ltd. has the following book value capital structure as on March 31, 2014.

	₹
Equity share capital	40,00,000
11.5% preference shares	10,00,000
10% Debentures	30,00,000
	80,00,000

The equity share of the company sells for ₹ 20. It is expected that the company will pay dividend of ₹ 2 per equity share next year, which is expected to grow at 5%. Assume a 35% tax rate.

Compute Weighted Average Cost of Capital (WACC) based on the existing capital structure.
