UN – 442

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V Semester B.B.M. Examination, November/December 2015
(2014-15 and Onwards) (F + R)
BUSINESS MANAGEMENT
Paper – 5.6 : Elective Paper – I : Advanced Financial Management

Time : 3 Hours Max. Marks : 100

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

SECTION – A

Answer **any eight** questions. **Each** question carries **two** marks. **(8×2=16)**

1. a) What is a cash budget ?

   b) What is decision tree analysis ?

   c) What are the sources of capital ?

   d) Define capital structure.

   e) What is cost of capital ?

   f) List out the features of optimum capital structure.

   g) What is DCF ?

   h) Differentiate between gross and net working capital.

   i) A firm has paid ₹ 40,000 as interest on debenture value of ₹ 5,00,000. Calculate the pretax cost debenture.

   j) Annual usage ₹ 2,00,000, cost of placing order ₹ 80. Annual carrying cost 10% of inventory value. Calculate EOQ.

P.T.O.

SECTION – B

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

2. Explain briefly the types of risks.

3. Explain the factors determining requirement of working capital.

4. Explain the basis of valuation.

5. A Co. expects a net income of ₹ 80,000. It has ₹ 2,00,000 8% debenture. The equity capitalisation rate of the company is 10%. Calculate the value of the firm and over all capitalisation rate, according to the Net Income (NI) approach. If the debt is increased to ₹ 3,00,000 what shall be the value of the firm and the overall capitalisation rate ?

SECTION – C

Answer Q. No. **10** and **any three** of the remaining. **Each** question carries **fifteen** marks. **(4×15=60)**

6. A Co. is considering two mutually exclusive Projects X and Y. Project X cost ₹ 30,000 and Project Y ₹ 36,000. You have been given below the net present value and probability distribution for each project.

Project X		**Project Y**	
NPV estimate	**Probability**	**NPV estimate**	**Probability**
3000	0.1	3000	0.2
6000	0.4	6000	0.3
12000	0.4	12000	0.3
15000	0.1	15000	0.2

Compute the risk attached to each project under standard deviation of each probability distribution.

7. Manufacturing company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figures are as follows :

	₹
Sales	3,00,000
Materials used	1,08,000
Wages	96,000
Manufacturing expenses	1,20,000
Administration expenses	30,000
Selling expenses	18,000

Additional Information :

1) Credit given by suppliers is 2 months.
2) Credit allowed to customer is 1 month.
3) Wages are paid half a month in arrear.
4) Manufacturing and administrative expenses are paid one month in arrear.
5) Selling expenses are paid quartely in advance.
6) The company wishes to keep one month stock of raw materials and also of finished goods.
7) The company believes in keeping cash of ₹ 50,000 including the overdraft limit of ₹ 20,000 not yet utilised by company.

You are required to prepare a statement showing the working capital requirement of the company adding 10% margin for contingencies. Cost of goods sold for computation of debtors and stock of finished goods may be taken at sales minus gross profit.

8. The following information is available in respect of firm.

   Capitalisation rate = 10%

   Earnings per share = ₹ 50

   Assumed rate of return on investments :

   1) 12 %
   2) 8 %
   3) 10 %

   Show the effect of dividend policy on market price of shares applying Walter's Model when dividend pay out ratio is (a) 0% (b) 20% (c) 40% (d) 80% (e) 100%.

9. Following are the details regarding the capital structure of a company.

Sources of capital	**Book value**	**Market value**	**Specific cost**
Debt	40,000	38,000	5 %
Preference	10,000	11,000	8 %
Equity	60,000	1,20,000	13 %
Retained earning	20,000	–	9 %
	1,30,000	**1,69,000**	

You are required to determine the weighted average cost of capital using (a) book value as weight (b) market value as weights.

10. A company is expecting to have ₹ 50,000 cash in hand on 1st April 2009 and it requires you to prepare cash budget for the three months April to June 2009. The following information is supplied to you.

Months	**Sales** ₹	**Purchases** ₹	**Wage** ₹	**Expenses** ₹
February	1,40,000	80,000	16,000	12,000
March	1,60,000	1,00,000	16,000	14,000
April	1,84,000	1,04,000	18,000	14,000
May	2,00,000	1,20,000	20,000	16,000
June	2,40,000	1,10,000	24,000	18,000

Other information :

1) Period of credit allowed by supplier is two months.
2) 25% of sales is for cash and the period of credit allowed to customers is one month.
3) Delay in payment of wages and expenses one month.
4) Income tax Rs. 50,000 is to be paid in June.