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**SN – 570**

# V Semester B.B.M. Degree Examination, November/December 2017
## (2014-15 and Onwards) (Repeaters)
## BUSINESS MANAGEMENT
## 5.6 : Elective Paper – I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

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

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### SECTION – A

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

1. a) Mention any two methods of capital budgeting.

   b) What do you mean by uncertainty ?

   c) Give the meaning of specific cost.

   d) 'X' company issued Rs. 2,00,000 12% preference shares of Rs. 100 each. Calculate the cost of preference shares. If preference shares are issued at par with no floating cost.

   e) What do you mean by capitalisation ?

   f) What is trading on equity ?

   g) Give the meaning of term cash budget.

   h) Mention any 4 forms of dividend.

   i) Name two theories of dividend.

   j) State different methods of corporate valuation.

### SECTION – B

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

2. Explain significance of cost of capital.

3. Explain factors determining working capital requirement.

4. Explain in brief Gordon's approach of theory of Relevant (Dividend theory).

**P.T.O.**

5. Two mutually exclusive investment proposals are being considered. The following information is available.

| | Project X | Project Y |
|---|---|---|
| Cost | Rs. 6,000 | Rs. 6,000 |

**Cash inflow**

| Year | Project X | | Project Y | |
|---|---|---|---|---|
| | (Rs.) Cash inflow | Probability | (Rs.) Cash inflow | Probability |
| 1 | 4,000 | .2 | 8,000 | .2 |
| 2 | 8,000 | .6 | 9,000 | .6 |
| 3 | 12,000 | .2 | 9,000 | .2 |

Assuming cost of capital @ 10% advise the selection of the project (probability approach).

## SECTION – C

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

**(4×15=60)**

6. Show the impact of 40%, 60%, 80% dividend payout ratio on market price per share as per Walter's model.

| **Firm A** | **Firm B** | **Firm C** |
|---|---|---|
| r = .15 | r = .10 | r = .08 |
| K = .10 | K = .10 | K= .10 |
| E = Rs. 8 | E = Rs. 8 | E = Rs. 8 |

7. Calculate the value of the firm and over all cost of capital from following data under net income approach.

| | **'X' Company All Equity** | **'Y' Company Debt capital Rs. 30,000 @ 12%** |
|---|---|---|
| EBIT | 20,000 | 20,000 |
| Less : Interest | – | 3,600 |
| | 20,000 | 16,400 |
| Equity capitalisation rate | 20% | 20% |
| Market value of the debt | 30,000 | 30,000 |

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

| | Project X | | Project Y | |
|---|---|---|---|---|
| Year | Cash inflow | Certainty coefficient | Cash inflow | Certainty coefficient |
| 1 | 25,000 | .8 | 20,000 | .9 |
| 2 | 20,000 | .7 | 30,000 | .8 |
| 3 | 20,000 | .9 | 20,000 | .7 |

Risk free cut off rate is 10%, suggest which of the two projects should be preferred (certainty equivalent method)

Discount factor

@ 10%, .909, .826, .756

9. The following is the capital structure of a company.

| Source of capital | Book Value | Market Value |
|---|---|---|
| Equity shares @ 100 each | 8,00,000 | 16,00,000 |
| 9% cumulative preference shares | 2,00,000 | 2,40,000 |
| 11% debentures | 6,00,000 | 6,60,000 |
| Retaired earnings | 4,00,000 | – |
| | **20,00,000** | **25,00,000** |

The current market price of the company's equity share is 200. Equity dividend is 25% which is expected to grow @ 5% p.a. corporate tax is 30%. Calculate weighted average cost of capital on basis of book value weights.

10. ABC co., wishes to arrange overdraft facility with bankers during the period April to June of a particular year. Prepare cash budget for the above period.

| Month | 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 |

a) There is no cash sales. 50% of credit sales are realised in the month following the sales and remaining 50% in second month following.
b) Creditors are paid in the following month of purchase.
c) Wages are paid in the same month.