



QP – 366

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V Semester B.B.A. Examination, March/April 2022
(CBCS) (F+R) (2016-17 and Onwards)



BUSINESS ADMINISTRATION

5.5 Elective Paper – I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

Instruction : Answers should be written in English only.

SECTION – A

1. Answer **any five** sub-questions. **Each** sub-question carries **2** marks. **(5×2=10)**
- Write a short note on financial risk.
 - What do you understand by co-efficient of variation ?
 - Mention any four classifications of cost of capital.
 - Give the meaning of net income approach.
 - State any two factors influencing dividend decisions.
 - Differentiate between gross and net working capital.
 - Write any four salient characteristics of debentures.

SECTION – B

Answer **any three** questions. **Each** question carries **six** marks. **(3×6=18)**

- Explain the importance of risk management.
- Describe what is Weighted Average Cost of Capital (WACC).

P.T.O.



4. Analyse the significance of dividend policy.
5. a) What is “EOQ” of materials ? Write any four assumptions of EOQ model.
- b) Calculate EOQ, Annual usage 6,000 units, cost of material per unit ₹ 20, cost of placing and receiving one order ₹ 60, annual carrying cost of one unit 10% of inventory.
6. The dividend payout ratio of the following three companies is 50%. From the following calculate the value of an equity share of each of these companies by Walter’s model.

	Shalini Ltd.	Rakshana Ltd.	Likith Ltd.
E	₹ 24	₹ 24	₹ 24
r	10%	5%	10%
Kc	10%	10%	15%

SECTION – C

Answer **any three** questions. **Each** question carries **fourteen** marks. (3×14=42)

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



8. A 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 weighted average cost of capital using

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

How are they differing ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?

9. ABC Limited has a capital of ₹ 10 lakhs in equity shares of ₹ 100 each. The shares are currently quoted at par. The company proposes declaration of a dividend of ₹ 10 per share at the end of the current financial year. The capitalisation rate for the risk class to which the company belongs is 12%.

What will be the market price of the share at the end of the year, if

- i) A dividend is declared
- ii) A dividend is not declared ?

Assuming that the company pays the dividend and has net profits of ₹ 5,00,000 and makes new investments of ₹ 10 lakhs during the period, how many new shares must be issued ? Use the M.M. Model.



10. Mentha and Co., wishes to arrange over draft facilities with its bankers during the period April to June 2021, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extend of the bank facilities the company will require at the end of each month.

2021	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

Additional information :

- 50% of credit sales are realised in the month following sales and the remaining 50% in the second month following .
- Creditors are paid in the month following the month of purchase.
- Estimated cash at bank on 1st April 2021 ₹ 25,000.

11. Elucidate the valuation of debentures in detail.
