

53
V Semester B.B.A. Examination, March 2023
(CBCS Scheme)
(2016 – 17 and Onwards) (F+R)
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

Answer **any five** sub-questions. **Each** sub-question carries **2** marks. **(5×2=10)**

1. a) What is business risk ?
- b) Give the meaning of cost of equity.
- c) What do you understand by optimal capital structure ?
- d) State any two objectives of stock dividend.
- e) Give the meaning of operating cycle.
- f) What is lock box system ?
- g) What is EOQ ?

SECTION – B

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

2. What is sensitivity analysis ? Explain the relevance in project appraisal.
3. Describe the different types of costs.
4. Explain any five types of risks.
5. The dividend payout ratio of the following three companies is 50%. From the following other details, calculate the value of an equity share of each of these companies by Walter's formula.

	Supriya Ltd.	Shreya Ltd.	Shalini Ltd.
E	₹ 72	₹ 72	₹ 72
r	15%	30%	30%
Ke	30%	45%	30%

P.T.O.



6. Following is the information of a manufacturing company obtained from its books. Compute the operating cycle in days and the amount of working capital required. Period covered 365 days. Average period of credit allowed by creditors 20 days.

	in Rupees
Average total debtors outstanding	1,00,000
Raw material consumption	9,00,000
Total production cost	20,00,000
Total cost of sales	24,00,000
Sales	40,00,000
Value of Average stock maintained:	
Raw material stock	70,000
Work in progress	80,000
Finished goods	50,000

SECTION – C

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

7. From the following capital structure of a company, calculate the overall cost of capital using :
- Book value weights and
 - Market value weights.

Source	Book value	Market value
Equity share capital (₹ 10 per share)	₹ 45,000	₹ 90,000
Retail earnings	₹ 15,000	Nil
Preference share capital	₹ 10,000	₹ 10,000
Debentures	₹ 30,000	₹ 30,000

The after tax cost of different source of finance is as follows. Equity share capital 14%. Retained earnings 13%. Preference share capital is 10%, debenture 5%. How are they differing ? Can you think of a situation where the weighted average cost of capital should be the same using either of the weights ?



8. A company's expected net operating income is ₹ 4,00,000 and it has ₹ 12,00,000 10% debentures. The equity capitalization rate is 12%.

Calculate the value of the firm and overall capitalisation rate by increasing the debt component to 16,00,000 and decrease the debt up to ₹ 4,00,000 (cost remains the same).

9. Jhanvi Ltd. wishes to arrange overdraft facilities with its bankers during the period April to June 2015, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extent of the bank facilities. The company will require at the end of each month.

	Sales	Purchases	Wages
February	4,80,000	1,94,000	26,000
March	2,92,000	2,16,000	29,000
April	2,60,000	2,38,000	24,000
May	2,86,000	2,46,000	20,000
June	2,08,000	2,56,000	25,000

Additional Information :

- a) 50% of the credit sales are realised in the month following sales and the remaining 50% in the second month following.
 - b) Creditors are paid in the month following the month of purchase.
 - c) Estimated cash at bank on 1st April 2015 ₹ 25,000.
10. What is working capital ? Explain briefly the various factors affecting working capital.
11. What is dividend policy ? Explain the various factors affecting dividend policy.
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