



NS – 523

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V Semester B.B.M. Degree Examination, November/December 2016
(2014 – 15 & 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.

SECTION – A

Answer **any eight** questions. Each question carries **two** marks.

(8×2 = 16)

1. a) What is Corporate valuation ?
- b) What is Operating cycle ?
- c) Give the meaning of Dividend.
- d) What is Decision Tree Analysis ?
- e) Give the meaning of cost of capital.
- f) What are the motives of Holding cash ?
- g) Niksan Company issued Rs. 1,00,000. 12% Preference shares of Rs. 100 each. Calculate the cost of Preference shares. If Preference shares are issued at par with no floating cost.
- h) What is Risk Analysis ?
- i) What is Cash Budget ?
- j) If net credit sales of a firm is Rs. 5,00,000 and Opening Debtors is Rs. 40,000 and Closing Debtors is Rs. 60,000. Calculate Debtors Velocity Period.





SECTION - B

Answer **any three** questions. **Each** question carries **eight** marks.

(3×8 = 24)

2. What are the determinants of Dividend policy ?
3. Briefly explain the Net Income Approach theory of Capital Structure.
4. What are the importance of cost of capital ?
5. An Equity share of Niksan Company Ltd., is currently selling for Rs. 50. The company expects to pay Rs. 6 per share as dividend at the end of the current year. Dividend per share is expected to grow at the rate of 8% p.a.
 - a) Calculate the Cost of Equity.
 - b) If the new growth rate is 10% p.a.

Calculate the indicated Market Price.

SECTION - C

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

(4×15 = 60)

6. The probability distribution of two Projects SAN and NIK, their NPV's are given below.

SAN		NIK	
NPV's Rs.	Probability	NPV's Rs.	Probability
5,000	0.2	0	0.1
7,500	0.7	7,500	0.7
10,000	0.1	15,000	0.2

Calculate the Expected Value, the standard deviation and the co-efficient of variation for each Project. Which of these mutually exclusive projects do you prefer and why ?



7. Sanik Company Ltd., has the following Capital structure as per its Balance Sheet at 31-3-2015

Particulars	Amount (Rs.)
• Equity share capital (Fully paid shares of Rs. 10 each)	4,00,000
• 18% Preference share capital irredeemable (Fully paid shares of Rs. 100 each)	3,00,000
• Retained earnings	1,00,000
• 12.5% Irredeemable debentures (Fully paid of Rs. 100 each)	8,00,000
• 12% Term Loan	4,00,000
	20,00,000

For the last year, the Company had paid Equity dividend of Rs. 8 per share, which is expected to grow at 5% p.a. Corporate Tax is 30%. Calculate Weighted Average Cost of Capital using Book Value Weights.

8. Pranik Company is expected Annual Net operating income of Rs. 2,00,000 and it has Rs. 6,00,000 10% debentures. The Equity Capitalization rate is 12%.

a) Calculate the value of the firm and overall Capitalization rate under Net Income Approach.

b) What is the impact, if debt decrease to Rs. 4,00,000 ?

9. The following information is available in respect of a firm.

Capitalization rate – 10%

Earnings per share – Rs. 60

Assume rate of return on investment

a) 10%

b) 12%.

Show the effect of dividend policy on Market Price of shares using Walter's Model when Dividend Payout ratio is

a) 20%

b) 60%.



10. Pranik Company wishes to arrange overdraft facilities with its Bankers, during the period April to June 2015. Prepare a Cash Budget for the above period from the following data indicating the extent of the Bank facilities required to the Company at the end of each month

Particulars	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 2015 was Rs. 25,000.