



NP – 384

24

V Semester B.B.A. Examination, January/February 2025

(NEP) (Freshers/Repeaters)

BUSINESS ADMINISTRATION

Paper – 5.4/5.5 : Advanced Corporate Financial Management (Elective) (FN 1)

Time : 2½ Hours

Max. Marks : 60

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

SECTION – A

Answer **any six** sub-questions. **Each** sub-question carries **two** marks. **(6×2=12)**

1. a) What is meant by financial risk ?
b) What is explicit cost of capital ?
c) Name any two factors influencing dividend policy.
d) What do you mean by capital structure ?
e) What is vertical merger ?
f) How do you calculate value of levered firm according to MM approach ?
g) What is sensitivity technique ?
h) State the difference between risk and uncertainty.



SECTION – B

Answer **any three** questions. **Each** question carries **four** marks. **(3×4=12)**

2. A company has EBIT of ₹ 1,00,000. It expects a return on its investment at a rate of 12.5%. You are required to find out the total value of the firm according to the Miller-Modigliani theory.
3. There are two projects X and Y. Each involves an investment of ₹ 40,000. The expected cash inflows and the certainty coefficients are as under :

Year	Project X		Project Y	
	Cash inflow	Certainty coefficient	CI	CCE
1	25,000	0.8	20,000	0.9
2	20,000	0.7	30,000	0.8
3	20,000	0.9	20,000	0.7

Risk-free cut-off rate is 10%. Suggest which of the two projects should be preferred.

P.T.O.



4. A company issues 10,000, 10% preference shares of ₹ 100 each redeemable after 10 years at a premium of 5%. The cost of issue is ₹ 2 per share. Calculate cost of preference capital.
5. Explain briefly any four reasons for mergers.
6. Explain briefly any four techniques of measuring risks.

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks. **(3×12=36)**

7. XYZ company has given the following possible cash inflows for two of its Projects X and Y out of which are they wish to undertake together with their associative probabilities both the projects will require an equal investment of ₹ 5,000.

Possible Event	Project X		Project Y	
	Cash inflow	Probability	Cash inflow	Probability
A	4,000	0.1	12,000	0.1
B	5,000	0.2	10,000	0.15
C	6,000	0.4	8,000	0.5
D	7,000	0.2	6,000	0.15
E	8,000	0.1	4,000	0.1

Which project is more risky based on standard deviation method and comment on the consistency of the projects using coefficient of variation method.

8. The Firms A and B are identical in all respects including risk factors except for debt equity mix. Firm A has issued 12% debentures of ₹ 15,00,000 while B has issued only equity. Both the firms earn 30% before interest and taxes on their total assets of ₹ 25,00,000. Assuming a tax rate of 50% and capitalisation rate of 20% for an all equity company, you are required to compute the value of the two firms using (i) NI approach and (ii) NOI approach.



9. A company has the following capital structure and after-tax costs for the different sources of funds used :

Sources of Funds	Amount (₹)	After-tax cost (%)
Debt	15,00,000	5
Preference shares	12,00,000	10
Equity shares	18,00,000	12
Retained earnings	15,00,000	11
Total	60,00,000	

You are required to compute the weighted average cost of capital.

10. Following are the details regarding three companies A Ltd., B Ltd. and C Ltd.

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	$r = 5\%$	$r = 10\%$
$K_e = 10\%$	$K_e = 10\%$	$K_e = 10\%$
$E = ₹ 8$	$E = ₹ 8$	$E = ₹ 8$

Calculate the value of an equity share of each of these companies applying Walter's model when dividend payout ratio is a) 50% b) 75% c) 25%. What conclusions do you draw ?

11. What do you mean by Mergers and Acquisitions ? Explain in detail the types of mergers.
-