V Semester B.B.A. Examination, November/December 2018
(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

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

1. a) What is meant by unsystematic risk ? Give an example.
   b) Distinguish between risk and uncertainty.
   c) What is specific cost of capital ?
   d) What is a stock dividend ?
   e) What do you mean by a dividend policy ?
   f) What is a ageing schedule ?
   g) Annual requirement is ₹ 1,00,000, cost of placing order ₹ 10, carrying cost per annum is 8% of inventory, calculate Economic order quantity.

SECTION – B

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

2. What is sensitivity analysis ? Explain its relevance in project appraisal.
3. Explain net operating income approach.
4. What are the assumptions of Walter's dividend model ? Explain its shortcomings.
5. a) What is EOQ ? What are the different methods of EOQ ?
   b) Find out the EOQ from the following information :
   Annual usage – 9000 units
   Cost of material – ₹ 10 per unit
   Cost of placing and receiving an order – ₹ 30
   Carrying cost per unit – 10% of inventory value.
6. Discuss the importance of relative valuation approach.

P.T.O.

SECTION – C

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

7. A Garment factory is considering one of two mutually exclusive project proposals, Project 'M' and Project 'N'. Which require a cash outlays of ₹ 6,00,000 and ₹ 6,50,000 respectively. The Certainty Equivalents (C.E.) approach is used in considering risk in capital budgeting. The risk free rate of return is 6%. The expected net cash flows and their certainty equivalents are as follows :

	Project 'M'		Project 'N'	
Year	**Cash Inflows (₹)**	**C.E.**	**Cash Inflows (₹)**	**C.E.**
1	4,25,000	0.8	4,25,000	0.9
2	4,75,000	0.7	4,75,000	0.7
3	4,75,000	0.5	4,50,000	0.9
4	4,75,000	0.7	4,65,000	0.8

Present value factors of ₹ 1 discounted at end of year 1, 2, 3, and 4 at 6% are : 0.943, 0.890, 0.840 and 0.792, you are required to ascertain :

1) Which project should the firm accept ?

2) If risk adjusted discount rate method is used which project would be appraised with a higher rate and why ?

8. The following details are furnished by the Gama Ltd.

	₹
Equity share capital	65,00,000
12% preference share capital	12,00,000
15% redeemable debentures	18,00,000
10% convertible debentures	10,00,000

The cost of equity capital for the company 17.20% and income tax rate for the company is 35%. You are required to calculate the Weighted Average Cost of Capital (WACC) of the company.

9. A Pharma company belongs to a risk class of which the approximate P/E ratio is 12%, currently has 40000 equity shares at ₹ 100 each. The firm is contemplating to declare the dividend of ₹ 10 per share at the end of financial year which has just started. Given the assumptions of Modigliani and Miller, answer the following questions :

   1) What will be the price of the share at the end of the year ?

      i) If dividend is not declared ii) If dividend is declared.

   2) Assuming that the company pays the dividend, has a net income (Y) of ₹ 5,00,000 and makes new investment of ₹ 10,00,000 during the period, how many new shares must be issued ?

10. XYZ Ltd. wants you to prepare the cash budget for 3 months from April to June 2017. It is expected to have a cash in hand of ₹ 60,000 on 1st April 2017, the following information is provided.

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Administration expenses	Mfg. exp.	Selling exp.
Jan.	1,80,000	85,000	42,000	5,000	6,000	7,000
Feb.	1,65,000	1,00,000	32,000	7,000	10,000	12,000
Mar.	2,25,000	1,20,000	38,000	7,000	15,000	8,000
Apr.	2,35,000	92,000	56,000	9,000	10,000	6,000
May	1,92,000	98,000	26,000	12,000	6,000	8,000
Jun.	1,68,000	90,000	35,000	7,000	5,000	3,000

Additional Information :

a) 30% of sales are cash sales and the period of credit allowed to customers in one month.

b) Period of credit allowed by suppliers in two months.

c) Lag in payment of wages in one month.

d) Delay in payment of administrative, manufacturing and selling expenses in one month.

e) Income tax of ₹ 15,000 is to be paid in June.

11. Describe different methods of valuation of intangible assets at the time of merger.