Seat No. : ______

NG-101

November-2023

B.B.A., Sem.-V

CC-307 : Advanced Financial Management – I

Time : 2½ Hours] **[Max. Marks : 70**

General Instructions :

(1) All the questions are compulsory.

(2) In Question 5 do as directed.

(3) Figures to the right indicate marks.

1. (A) The mining company's iron ore reserves are being depleted, and its costs of recovering a declining quantity of iron ore are rising each year. As a sequel to it, the company's earnings and dividends are declining at a rate of 8% per year. If the previous year's dividend was ₹ 10 and the required rate of return is 15%, what would be the current price of the equity shares of the company ? 7

1. (B) The assets of B Co. Ltd are ₹ 1,60,000 for which funds have been raised as follows : Debentures ₹ 52,000; Equity shares ₹ 90,000 and General Reserve ₹ 18,000. The company's profit after interest and taxes for the year ending on 31st March, 2023 is ₹ 13,500. It pays 8% interest on debentures and pays 50% tax on its profit. It's equity shares are of ₹ 100 each and there are 900 shares in all, whose market value is ₹ 120. Find out the weighted average cost of capital of the company. 7

OR

1. (A) Company A issues 12% debentures of 10 years maturity. The face value of the debentures is ₹ 100 and its issue price is ₹ 96. The company pays underwriting commission and other charges which amount to 4% of the face value of debentures. If the tax rate is 50 percent, compute the after tax cost of debentures. What would be the cost of these debentures if they are irredeemable ? 7

1. (B) The balance sheet of the XYZ Ltd. as on 31-12-2021 is as under :

Liabilities	₹	Assets	₹
Equity capital (Each of ₹ 10)	1,00,000	Net fixed Assets	4,00,000
Reserves	80,000	Current Assets	2,50,000
14% Pref. Shares	30,000		
15% Debentures	2,50,000		
20% Term loan	1,40,000		
Current Liabilities	50,000		
	6,50,000		6,50,000

Additional information :

(i) The average market price of equity share is ₹ 30. The expected dividend in the next year is 24%. The dividend grows at 11%.

(ii) The tax bracket of the company is 40%.

(iii) The cost of retained earnings is 2% less than cost of equity capital.

Calculate the cost of capital using Book value weights. 7

2. (A) X Ltd. is proposing to issue a 5 year, 12% Preference Shares. The shares will be redeemed at ₹ 110 at the end of 5^{th} year. It's face value is ₹ 100. If an investor has a minimum required rate of return of 14%, what is the present value of such preference shares for him ? 7

2. (B) An investor is considering the purchase of the following Bond :

Face value ₹ 100

Coupon Rate 10% p.a.

Maturity 5 years

If the bond is selling for ₹ 97, what would be his yield ? 7

OR

2. (A) ABC Ltd. declared and paid annual dividend of ₹ 2 per share last year. It is expected to grow at 15 percent for 3 years and at 10 percent thereafter. Compute the price at which shares should sell today assuming the required rate of return to be 16%. 7

2. (B) If the market price of the bond is ₹ 95 , years to maturity is 6 years, coupon rate is 13% p.a. (paid annually) and issue price is ₹ 100, what is the yield to maturity. 7

3. (A) List and explain the characteristics of Derivatives. 7

3. (B) Explain Decision tree approach of Risk management. 7

OR

3. (A) Explain the points of difference between Forward contracts and Future contracts. 7

3. (B) Which are the types of Hazards ? 7

4. (A) Which are the factors affecting Dividend policy ? 7

(B) Explain Walter's model of Dividend relevance. 7

OR

4. (A) Which are the forms in which Dividend is distributed ? 7

4. (B) Explain Modigliani and Miller Hypothesis in detail. 7

5. Do as directed : (Any 7 out of 12) 14

Select the correct option from the given : (number 1 to 4)

(1) Implicit cost is also called _______ cost.

(a) Economic (b) Marginal

(c) Opportunity (d) Out of pocket

(2) The statistical measures of risk of an asset are :

(a) Standard deviation (b) Co-efficient of variation

(c) Both (a) and (b) (d) None of the above

(3) ________ contracts is not a loss financing method.

(a) Insurance (b) Retention

(c) Running (d) Hedging

(4) Which of the following decisions determine the market price of the share of a company ?

(a) Cash dividend (b) Stock dividend

(c) Capital structure (d) Walter's model

State whether True or False : (number 5 to 8)

(5) There is no cost for internally generated funds.

(6) Time value of money is generally expressed in terms of a rate of return or more popularly as a discount rate.

(7) Waiving is the term used for reducing risk by using derivatives.

(8) Dividend is a part of profit.

Fill in the blanks : (number 9 to 12)

(9) _______ weights are assigned on the basis of values found in the Balance Sheet.

(10) Diversifiable risk is also known as ______ risk.

(11) Derivatives do not have ______ value of their own.

(12) _____ shares have preference over equity shareholders.