Seat No. : 1371

NG-112

December-2024

B.B.A., Sem.-V

CC-307 : Advanced Financial Management

Time : 2:30 Hours] **[Max. Marks : 70**

1. (A) A company has on its books the following amounts and specific costs of each type of capital : 7

Type of Capital	Book Value ₹	Market Value ₹	Specific Cost
Debentures	18,00,000	17,10,000	6%
Preference Share Capital	4,20,000	4,80,000	9%
Equity Share Capital	24,00,000	46,20,000	14%
Retained Earnings	9,00,000		10%
	55,20,000	**68,10,000**	

From the above information, find out the weighted average cost of capital using :

(1) Book Value Weights

(2) Market Value Weights

(B) Suraj Ltd. issued 10,000 11% Redeemable Preference shares of ₹ 100 each at a discount of 5%. The cost of share issue amounted to ₹ 30,000. These shares are to be redeemed at par after 10 years. Find out the cost of capital of preference shares.

What would be the cost of capital, if the preference shares are irredeemable ? 7

OR

1. (A) ABC Ltd. is contemplating an issue of new equity shares. Its equity shares are currently selling at ₹ 420 a share. The historical pattern of dividend payments per share, for the last 5 years is given below : 7

Year	Dividend ₹
1	36.00
2	38.70
3	41.10
4	44.40
5	48.90

The flotation costs are expected to be 4% of the current selling price of the shares.

You are required to determine the following :

(1) Growth rate in dividends

(2) Cost of equity capital assuming growth rate determined under situation (1) continues for ever.

(3) Cost of new equity shares.

Note : **FVIF (8%, 4 years) = 1.36, FVIF (7%, 4 years) = 1.311, FVIF (7%, 5 years) = 1.40, FVIF (8%, 5 years) = 1.47**

(B) PQR Ltd. has issued 15% irredeemable debentures of ₹ 100 each for ₹ 1,00,000. The tax rate is 50%. Compute the cost of debentures for each of the following situations : **7**

(1) When debentures are issued at par

(2) When debentures are issued at 5% premium

(3) When debentures are issued at a discount of 5%

2. (A) An investor is considering the purchase of the following Bond : **7**

Face Value	₹ 100
Coupon Rate	10% p.a.
Maturity	5 years

If the bond is selling for ₹ 90, what would be his yield ?

(B) MN Ltd. is proposing to issue a 5 year, 10% preference shares. The shares will be redeemed at ₹ 120 at the end of 5th Year. Its 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 of him ? **7**

OR

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

(B) A company's current price of share is ₹ 150 and dividend per share is ₹ 12. If the required rate of return is 14%, what is the growth rate of dividend ? **7**

3. (A) What is Derivatives ? Discuss characteristics of Derivatives in brief. 7

(B) Discuss difference between Forward Contract and Future Contract. 7

OR

3. (A) Discuss Certainty Equivalent Approach in brief. 7

(B) Write a short note on Decision Tree Approach. 7

4. (A) Discuss any seven determinants of dividend policy. 7

(B) Explain Walter's Model of dividend relevance. 7

OR

4. (A) Discuss different types of Dividend Policy in detail. 7

(B) Discuss Gordon Model of Dividend Policy. 7

5. Do as directed : (Any **Seven**) 14

(1) Implicit Cost is also known as Opportunity Cost. (True / False)

(2) Give the full form of CAPM.

(3) _______ risk is unavoidable. (Systematic / Unsystematic)

(4) YTM stands for Yield to Maturity. (True / False)

(5) Preference stock is a form of _______ security. (Hybrid / Pure)

(6) Risk is possibility of _______. (Loss / Gain)

(7) The spot rate is also known as benchmark price. (True / False)

(8) Define : Call Option.

(9) _______ is the term used for reducing risk by using derivatives. (Waiving/ Revoking / Hedging)

(10) Stock dividend is also termed as _______. (Bonus shares / Interim dividend / Cash dividend)

(11) The rate of dividend on preference share capital is decided at the time of _______. (Issue / Redemption)

(12) MM Model of dividend policy is based on _______ concept of dividend. (Relevance / Irrelevance)