V Semester B.B.A. Examination, November/December 2017
(CBCS) (F + R) (2016-17 and Onwards)
BUSINESS ADMINISTRATION
Paper – 5.5 : Elective Paper – I : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

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

SECTION – A

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

1. a) State the different motives of holding cash.

   b) Mention the steps in decision tree analysis.

   c) What is weighted average cost of capital ?

   d) State the important dimensions of a firm's credit policy.

   e) Which of the following are most commonly used tools of inventory management in India ?

   ABC analysis

   FSN analysis

   Inventory turn over analysis

   All the above.

   f) What is systematic risk ?

   g) Give the formula for cost of redeemable debt.

SECTION – B

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

2. What are the pros and cons of using dividend growth model approach to calculate the cost of Equity ?

3. Write note on sensitivity analysis as a method of measuring risk.

4. a) Write note on concept of working capital.

   b) A customer has been ordering 5000 units @ ₹ 1,000 per order during the year. The production cost is ₹ 12 P.U. ₹ 8 for materials and labour and ₹ 4 overhead cost. It costs ₹ 1,500 to setup for one run of 1000 units. The inventory carrying cost is 20% of the production cost. The customer is expected to buy at least 5000 units next year. The company wants to avoid making 5 different production runs. You are required to determine the most economic production run.

5. a) Rao Corporation has a target capital structure of 60% equity and 40% debt. Its cost of equity is 18% and its pre-tax cost of debt is 13%. If the relevant tax rate is 35%. What is Rao Corporation WACC ?

   b) Calculate the cost of equity for a firm, whose shares are quoted at ₹ 120. The dividend at the end of the year is expected to be ₹ 9.72 per share and the growth is 8%.

6. From the following data determine the value of the firm 'P' and 'Q' belonging to the homogeneous risk class under Net Income approach.

		Firm 'P'	**Firm 'Q'**
EBIT		₹ 2,25,000	₹ 2,25,000
Interest 15%		₹ 75,000	–
Equity Capitalization rate (Ke)	0.20		
Tax rate	0.35		

Which of the two firms has an optimal capital structure ?

SECTION – C

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

7. Hypothesis Ltd. is considering two mutually exclusive projects 'X' and 'Y'. Project 'X' costs ₹ 30,000 and project 'Y' ₹ 36,000. You have been given below the NPV probability distribution for each project.

Project 'X'		**Project 'Y'**	
NPV estimates ₹	**Probability**	**NPV estimates** ₹	**Probability**
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

i) Compute the expected NPV of Project X and Y.

ii) Compute the standard deviation of each probability distribution.

iii) Which project do you consider more risky and why ?

8. ABC Ltd. wishes to arrange for O/D facilities with its bankers during the period April to June of a particular year when it will be manufacturing mostly for stock.

   Prepare cash budget for the above period from the following data indicating the extent of bank facilities the company will require at the end of each month.

   a)

Month	Sales	Purchases	Wages
February	1,80,000	1,24,000	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

   b) 50% of the credit sales are realised in the month following the sales and the remaining sales in the second month following : creditors are paid in the month following the purchase.

   c) Cash in Bank on 1st April estimated to be 25,000.

9. The following information is available in respect of rate of return, equity capitalisation rate and earnings per share of manufacturing company

   r (rate of return) i) 0.12 ii) 0.11 iii) 0.10

   Ke (equity capitalisation rate) 0.11

   E (Earnings per share) ₹ 20

   Determine the value of its share as per Gordon's model in each alternative assuming the following :

	D/P ratio (1 – b)	Retention ratio (b)
(a)	10	90
(b)	20	80
(c)	50	50

10. What factors have an important bearing on working capital needs ? Explain.

11. Explain the factors stimulated interest in value based management.