



SS – 574

V Semester B.B.M. Degree Examination, November/December 2018
(2014-15 and Onwards) (Repeaters)
BUSINESS MANAGEMENT

5.6 : Elective Paper – I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

Instruction : Answer should be written in English only.

SECTION – A

Answer **any eight** questions. **Each** question carries **two** marks. (8×2=16)

1. a) What is cash budget ?
- b) What is trading on equity ?
- c) Mention any 4 forms of dividend.
- d) 'X' Ltd., issues ₹ 50,000, 8% debentures at par. The tax rate applicable is 50%. Compute the cost of debt capital ?
- e) What are motives of holding cash ?
- f) Annual usage ₹ 2,50,000, cost of placing an order ₹ 50, annual carrying cost 10% of inventory value. Calculate EOQ.
- g) What is DCF ?
- h) What is business risk ?
- i) Mention the theories of capital structure.
- j) What is networking capital ?

SECTION – B

Answer **any three** questions. **Each** question carries **eight** marks. (3×8=24)

2. Explain the factors determining requirement of working capital.
3. Explain the Gordon's approach of theory of relevance (Dividend theory).
4. Briefly explain the "Net operating income" approach theory of capital structure.

P.T.O.



5. Dry son Ltd. provides the following informations.

	₹
Cash sales during the year	1,50,000
Credit sales during the year	2,70,000
Returns inward	20,000
Debtors in the beginning	55,000
Debtors at the end	45,000

Calculate :

- Debtors turnover ratio
- Average collection period (360 days).

SECTION - C

Answer Q. No. 10 and **any three** of the remaining. **Each** question carries **fifteen** marks.

(4×15=60)

6. The following information is available in respect of a Firm :

Capitalisation rate 10%

Earnings per share ₹ 50

Assumed rate of return on investments :

- 12%
- 8%
- 10%

Show the effect of dividend policy on market price of shares applying Walter's formula, when dividend payout ratio is

- 20%
- 40%
- 80% and
- 100%



7. You have been given below the cash inflows and probability distribution for each project.

Project 'X'		Project 'Y'	
Cash inflows ₹	Probability	Cash inflows ₹	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

Compute the risk attached to each project under standard deviation of each probability distribution.

8. A company expects a net income of ₹ 1,60,000. It has ₹ 4,00,000, 8% debentures. The equity capitalisation rate is 10%.
- a) Calculate the value of the firm and overall capitalisation rate according to net income approach (Ignoring income tax).
 - b) If the debenture debt is increased to ₹ 3,00,000, what shall be the value of the firm and the overall capitalisation rate ?
9. The cost of capital (after tax) of a firm of the specific sources is as under :

Cost of debt 4.50%

Cost of preference shares 10.50%

Cost of equity capital 15.60%

Cost of retained earnings 15.00 (External yield criterion)

Capital structures are :

	₹
Debt	2,00,000
Preference share capital	3,00,000
Equity share capital	4,00,000
Cost of retained earnings	1,00,000
	10,00,000

Calculate the weighted average cost of capital using "Book value weights".



10. XY Co. wishes to arrange overdraft facilities with bankers during the period April to June of a particular year. Prepare cash budget for the above period from the following data.

Month	Sales ₹	Purchases ₹	Wages ₹
February	1,80,000	1,24,800	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

- a) 50% of the credit sales are realised in the month following the sales and the remaining sales in second month following.
- b) Creditors are paid in the following month of purchase.
- c) Cash at bank on 1st April ₹ 25,000.