



64525

V Semester B.B.A. Degree Examination, April/May 2023
(CBCS)
BUSINESS ADMINISTRATION
Elective Paper – 5.5 : FN : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

Instruction : Answers should be written in English only.

SECTION – A

1. Answer **any five** of the following. (5×2=10)
- a) What do you mean by Capital Budgeting ?
 - b) How do you calculate average rate of return ?
 - c) What do you mean by risk analysis ?
 - d) Write any two techniques of measuring risks in investment decisions.
 - e) What do you mean by cost of capital ?
 - f) Give the meaning of capital structure.
 - g) What do you mean by dividend decision ?

SECTION – B

Answer **any three** of the following. (3×6=18)

2. The following information is available in respect of the rate of return on investment (r), the cost of capital (k), and earning per share (E) of ABC Ltd.

Rate of return on investment (r) = (i) 15%, (ii) 12%, and (iii) 10%

Cost of capital = (k) 12%,

Earnings per share (E) = Rs. 10

Determine the value of its shares using Gordon's Model assuming the following :

Details	D/p ratio (1-b)	Retention ratio (b)
(a)	100	0
(b)	80	20
(c)	40	60

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3. AB Ltd. needs Rs. 10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs. 1,60,000. In choosing a financial plan, AB Ltd. has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,00,000 or Rs. 4,00,000 or Rs. 6,00,000. The current market price per share is Rs. 25 and is expected to drop to Rs. 20 if the funds are borrowed in excess of Rs. 5,00,000.

Funds can be borrowed at the rates indicated below :

- Upto Rs. 1,00,000 at 8%.
- Over Rs. 1,00,000 upto Rs. 5,00,000 at 12%.
- Over Rs. 5,00,000 at 8%.

Assume a tax rate of 50%. Determine the EPS for the three financial alternatives and suggest the scheme which would meet the objective of the management.

4. Briefly explain the techniques of measuring risks.
5. A project requires an investment of Rs. 5,00,000 and has a scrap value of Rs. 20,000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs. 20,000.

Calculate the average rate of return on the investment.

6. A company issues Rs. 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%.

SECTION – C

Answer **any three** of the following.

(3×14=42)

7. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%.

Particulars	Project-X	Project-Y
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 years	5 years
Scrap Value	Rs. 1,000	Rs. 2,000

The profits before depreciation and after taxes (cash flows) are as follows :

Years	1	2	3	4	5
Project-X	5,000	10,000	10,000	3,000	2,000
Project-Y	20,000	10,000	5,000	3,000	2,000



8. The following details relating to a manufacturing firm are available :

Month	Sales	Purchases	Wages	Manufacturing Expenses	Administrative Expenses
January	8,00,000	3,60,000	1,60,000	1,20,000	80,000
February	8,50,000	4,00,000	1,70,000	1,50,000	80,000
March	9,00,000	4,20,000	1,80,000	1,50,000	80,000
April	10,00,000	4,50,000	1,70,000	1,20,000	80,000
May	9,00,000	3,20,000	1,60,000	1,20,000	80,000
June	8,00,000	3,20,000	1,50,000	90,000	80,000

The following details are also available :

- a) 20% of sales are on cash basis. The remaining amount is collected in two equal installments in the following two months.
- b) Suppliers of material offer a credit period of one month.
- c) 25% of wages and manufacturing expenses are paid in the following month.
- d) Administrative expenses are paid in the same month.
- e) Cash balance on 1st March was Rs. 50,000.

You are required to prepare a cash budget for four months from March to June.

9. Write a short note on :

- a) Net Asset Method,
- b) Working Capital,
- c) Operating Cycle and
- d) Inventory management.





10. Compute the market value of the firm, value of shares and average cost of capital from the following information :

Net operating income – Rs. 4,00,000

Total investment – Rs. 20,00,000.

Equity capitalization Rate :

- a) If the firm uses no debt – 10%
- b) If the firm uses Rs. 8,00,000 debentures – 11%
- c) If the firm uses Rs. 12,00,000 debentures – 13%

Assume that Rs. 8,00,000 debentures can be raised at 5% rate of interest whereas Rs. 12,00,000 debentures can be raised at 6% rate of interest.

11. Discuss the criticisms of the Miller and Modigliani position, under capital structure theories.



Project	Initial Investment	Estimated Life	Scrap Value
Project X	Rs. 20,000	5 years	0
Project Y	Rs. 20,000	5 years	2,000

Years	1	2	3	4	5
Project X	5,000	10,000	10,000	5,000	2,000
Project Y	2,000	10,000	5,000	5,000	2,000