1805E408

Candidate's Seat No :________

BBA Sem.-5 Examination
CC-307
Adv Financial Mgmt
May 2022

Time : 2-00 Hours] **[Max. Marks : 50**

Instructions:

1) **All questions in section – I carry equal marks**
2) **Attempt any 2 questions in section – I**
3) **Question 5 in section – II is compulsory.**

SECTION - I

Q-1	A)	Sejal Ltd. has a following capital structure on 31-03-2021. <table><tr><td>Equity Capital</td><td>Rs. 100000</td></tr><tr><td>Reserves</td><td>Rs. 80000</td></tr><tr><td>13% Preference Share</td><td>Rs. 20000</td></tr><tr><td>16% Debentures</td><td>Rs. 90000</td></tr></table>The company falls under 50% tax bracket. The cost of equity capital and that of reserves to be taken as 17% and 15% respectively. The company is presently considering a project investment costing Rs. 60000, which is planned to be financed through 40% from internal accruals and the balance from the issue of 19% new debentures. Calculate the following: 1) Weighted average cost of capital before the project investments. 2) Marginal weighted average cost of capital of the new project assuming that the cost of reserves will remain unchanged.	[10]
	B)	(i) Dhvani steel ltd. is facing a tough time and it seems that their profits are getting wiped off year on year. The earnings of the company and dividend are declining at a rate of 7% yearly. If the company paid dividend of Rs. 6 last year and the required rate of return is 12%, what would be the current price of the equity shares of the company? (ii) Madhvi ltd issues 10% preference share of 10 years maturity. The face value of the share is Rs. 500 and its issue price is Rs. 484. The company pays underwriting commission and other charges which is around 5% of its issue price. If tax rate is 32%, compute the cost of preference share?	[10]
Q-2	A)	Devanshi Ltd. declared and paid annual dividend of Rs. 8 per share. It is expected to grow at 18% for first 3 years, then at 15% for next 3 years and thereafter 8% forever. The required rate of return is 16%. Compute the price of the share.	[10]

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	B)	A company has issued 14% preference stock with a face value of Rs. 500 redeemable after 5 years. The current value of the share is Rs. 460 and if the required rate of return is 16%, suggest whether the stock can be purchased at the prevailing price or not?	[10]
Q-3	A)	Give the meaning of Derivatives and highlight its characteristics?	[10]
	B)	Discuss Decision Tree approach in detail with a suitable example?	[10]
Q-4	A)	Explain the determinants affecting the dividend policy?	[10]
	B)	Explain in detail Gordon's Model of Dividend Policy?	[10]

SECTION - II

Q-5		MCQs (Attempt any 10) (1 mark each)		[10]
	1)	If a company has issued 12% perpetual debentures of Rs. 1000 each to raise Rs. 10 lakhs. The tax rate is 50%. Calculate the cost of debentures if they are issued at par.		
		a) 12%	b) 6%	
		c) 0.6%	d) 1.2%	
	2)	A bird in hand argument is given by which author in dividend theory?		
		a) James Walter	b) Modigliani and Miller	
		c) Myron Gordon	d) None of these	
	3)	Which dividend theory assumes that there are no corporate taxes?		
		a) James Walter	b) Modigliani and Miller	
		c) Myron Gordon	d) All of these	
	4)	The cost of perpetual debt capital if interest rate is 12% and tax rate is 30% is?		
		a) 8.4%	b) 9%	
		c) 0.84%	d) None of these	
	5)	If growth rate in dividend is 8.5% and past year company paid Rs. 5 as dividend, what is the current value of dividend?		
		a) 9.25	b) 5.0925	
		c) 5.425	d) None of these	
	6)	Decision Tree approach used to evaluate risk proposals in a ________ technique.		
		a) Quantitative	b) Qualitative	
		c) Quantitative and Qualitative	d) None of these	
	7)	Capital Asset Pricing model was developed by ________.		
		a) James Walter	b) William F. Sharpe	
		c) Adam Smith	d) None of these	
	8)	Floatation cost is always ______ from the price while calculating the cost of equity.		
		a) added	b) deducted	
		c) multiplied	d) none of these	
	9)	Implicit cost is also called as ________.		
		a) Economic cost	b) Marginal cost	
		c) Opportunity cost	d) None of these	

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	10)	A company issued 12% perpetual preference stock with face value of Rs. 100 compute value of preference stock assuming 15% required rate of return?		
		a) 60	b) 120	
		c) 140	d) 80	
	11)	Which of the following is/are the loss financing method/s?		
		a) Hedging contracts	b) Insurance contracts	
		c) Retention contracts	d) All of these	
	12)	Which of the following is a characteristic of Forward Contract?		
		a) Standard Quantity	b) fixed delivery dates	
		c) margin decide by exchange	d) traded on personal basis	
	13)	In which of the following policy company pays dividend regularly at a fixed rate.		
		a) Stable dividend policy	b) Extra dividend policy	
		c) No Immediate policy	d) None of these	
	14)	________ is the term used for reducing risk by using derivatives.		
		a) Waving	b) Revoking	
		c) Hedging	d) All of these	
	15)	Walter's model suggests that dividend decision is ________.		
		a) Relevant	b) Irrelevant	
		c) Neutral	d) None of these	

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