

Seat No. : _____

DA-103

December-2021

BBA., Sem.-V

CC-307 : Advanced Financial Management

Time : 2 Hours]

[Max. Marks : 50

- Instructions :**
- (1) All the questions in Section – I carry equal marks.
 - (2) Attempt any **TWO** questions in Section – I.
 - (2) Question – 5 in Section – II is **COMPULSORY**.

Section – I

1. (A) The following is the capital structure of Shital Ltd. as on 31 -3-2021: 10

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Equity shares (40,000 shares of 100 ₹ each)	40,00,000
10% Preference shares of ₹ 100 each	16,00,000
12% Debentures	24,00,000
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	80,00,000

The market price of company's share is ₹ 110 and it is expected that a dividend of ₹ 10 per share would be declared after 1 year. The dividend growth rate is 6%.

- (i) If the company is in 50% tax bracket, compute weighted average cost of capital.
 - (ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of ₹ 40 lakhs from a term loan bearing 14% rate of interest. What will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from 10 to 12 per share. However, the market price of equity share is expected to decline from ₹ 110 to ₹ 105 per share.
- (B) Compute the cost of capital in following cases : 10
- (a) A six year, 12% debenture of ₹ 100 redeemable at par with 5% floatation cost.
 - (b) An ordinary share selling at a current market price of ₹ 80, and paying a current dividend of ₹ 3 per share, which is expected to grow at a rate of 8%.

2. (A) A bond has 5 years remaining until maturity. It has a par value of ₹ 1,000. The coupon interest rate on the bond is 9%. Compute the Yield to Maturity at current market price of (a) ₹ 1,200, (b) ₹ 1,000 and (c) ₹ 800, assuming interest is paid annually. 10
- (B) (i) A company named Jyoti Ltd. has current price of share as ₹ 80 and dividend per share is ₹ 5. If the required rate of return is 15%, what is the growth rate in dividend ? 10
- (ii) Face value of a 12% debenture is ₹ 1,000. The maturity period of the debenture is 5 years. What is the value of debenture if required rate of return is, (a) 14% and (b) 12% ? 10
3. (A) Give the meaning of Forward Contract, Future Contract, Call Option and Put Option. Discuss the difference between Futures and Options. 10
- (B) Explain Certainty Equivalent Approach of Capital Budgeting in detail. 10
4. (A) Explain the different types of Dividend Policy in detail. 10
- (B) Discuss the Walter's Model of dividend relevance. 10

Section – II

5. Do as directed (Attempt any **10** out of **15**) : 10
- (1) Give the full form of YTM.
- (2) _____ bonds has no maturity value. (Redeemable, Perpetual, Zero coupon, Extra)
- (3) The cost of perpetual debt capital if interest rate is 8% and tax rate is 15% is _____. (6.2%, 6.8%, 8.6%, 7.2%)
- (4) For a bond Yield to Maturity is always equal to Coupon Rate. (True/False)
- (5) Cost of Capital is the _____ required rate of return expected by investors. (Minimum/Maximum/Fixed/Variable)
- (6) Beta is the measurement of _____ risk. (Unsystematic, Systematic, Avoidable)
- (7) The value of bond is present value of contractual payments it gets till maturity. (True/False)
- (8) Zero coupon bonds are always issued at discount. (True/False)
- (9) _____ is the term used for reducing risk by using derivatives. (Waiving/Revoking/Hedging)

- (10) Uncertainty refers to the probability of occurrence or non-occurrence of event or occurrence of more than one event. (True/False)
 - (11) In call option, the seller gets right to buy an asset at a particular price. (True/False)
 - (12) Future contracts are standardized in terms of amount or quantity as the case may be. (True/False)
 - (13) Only buyer is obligated to perform in case of Options. (True/False)
 - (14) The firm can follow consistent dividend policy when earnings are _____. (Zero, Negative, Fluctuating, Stable)
 - (15) “A bird in hand is better than two in bush.” This emphasises that an investor prefers_____ dividend. (Future, Stable, Current, Expected)
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