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2108E334

Candidate's Seat No :______

BBA Sem-5 Examination

CC 307

Advance Financial Management

August 2021

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

Instructions: (1) All Questions in **Section I** carry equal marks.
(2) Attempt any **Two** questions in **Section I.**
(3) Question 5 in **Section II** is **COMPULSORY.**

Section I

1. **[A]** Compute the cost of capital in following cases: **[10]**
   (a) A five year, 10% debenture of ₹ 100 redeemable at par with 10% floatation cost.
   (b) An ordinary share selling at a current market price of ₹ 200, and paying a current dividend of ₹ 5 per share, which is expected to grow at a rate of 8%.

   [B] Golu Ltd. has the following book value capital structure as on March 31, 2021: **[10]**

	₹
Equity share Capital (2,00,000 shares)	40,00,000
11.5% Preference shares	10,00,000
10% Debentures	30,00,000
	80,00,000

   The equity share of the company sells for ₹ 20. It is expected that the company will pay next year a dividend of ₹ 2 per equity share, which is expected to grow at 5% per annum forever. Assume 35% corporate tax rate.
   (i) Compute Weighted Average Cost of Capital of the company based on the existing capital structure.
   (ii) Compute the New Weighted Average Cost of Capital, if the company raises an Additional ₹ 20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹ 2.40 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 16 per share.

2. **[A]** A bond has 4 years remaining until maturity. It has a par value of ₹1000. The coupon interest rate on the bond is 9%. Compute the Yield to Maturity at current market price of **(a)** ₹1200, **(b)** ₹1000 and **(c)** ₹800, assuming interest is paid annually. **[10]**

   [B] **(1)** Find out the price at which equity shares will sell, if the required rate of return of investors is 12%, expected dividend per share next year is ₹ 2 and rate of growth in dividend is 5%. **[10]**
   (2) Mr. Akshay has invested in ABC Chemicals. The capitalization rate of the company is 12% and the current dividend is ₹ 3.00 per share. Calculate the value of the company's equity share if the company is slowly sinking with an annual decline rate of 5% in the dividend.

3. **[A]** Define Derivatives. Discuss its characteristics in detail. **[10]**
   [B] Explain Decision Tree Approach in detail. **[10]**

4. **[A]** Explain in detail various determinants of dividend policy. **[10]**
   [B] Discuss the Gordon's Model of dividend policy. **[10]**

P.T.O

Section II

5. **Do as directed** (Attempt any **10** out of **15**): **[10]**

(1) Capital Asset Pricing Theory asserts that portfolio returns are best explained by_________. (Diversification, Economic factors, Systematic risk, Specific risk)

(2) Opportunity cost is also known as________ cost. (Economics, Implicit, Marginal, Explicit)

(3) The cost of perpetual debt capital if interest rate is 9% and tax rate is 20% is_______. (6.2%, 7.2%, 8.2%, 9.2%)

(4) For a bond Yield to Maturity is always equal to Coupon Rate. (True/False)

(5) If the required rate of return is greater than the coupon rate, the bond will be valued at_______. (Premium, Par value, Discount).

(6) The value of bond is only dependent on the interest payments. (True/False)

(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) The price of a commodity or financial asset for immediate delivery is known as the _______. (Forward, Spot, Future, Options)

(11) In call option, the buyer 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) According to Walter's dividend model, optimum retention ratio in case of growing firms is 100%. (True / False)

(15) Stock dividend is also termed as __________.(Cash dividend, Interim dividend, Bonus shares, Regular dividend)

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