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0204N012

Candidate's Seat No :_____

B.B.A. Sem.-5 Examination

CC-307

Adv. Financial Management

April-2025

Time : 2-30 Hours] **[Max. Marks : 70**

1. **[A]** (1) A company issue 1000, 7% Preference Shares of ₹ 100 each at a premium of 10% redeemable after 5 years at par. Compute the cost of Preference Capital. **[7]**

(2) A company issues ₹ 1000000, 12% debenture at a discount of 5%. The debentures are redeemable after 5 years at par. The company apply 50% tax rate. Calculate before tax and after tax cost of debt.

[B] (1) If the company's earnings and dividends are declining at a rate of 8% year and previous year's dividend was ₹ 10 and if required rate of return is 15%, what would be the current price of the equity shares of the company? **[7]**

(2) A firm's cost of equity shares is 15%, the average tax rate of shareholders is 30% and it is expected that 4% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings?

OR

[A] What is Cost of Capital? Explain Explicit and Implicit Costs in brief. **[7]**

[B] The company is expecting to raise various source of finance. Following are the market values of sources of finance: **[7]**

Sources	Market Value (₹)
Equity shares	3,00,000
Preference shares	1,80,000
Debentures	2,20,000
	7,00,000

Relevant Information:

(i) The tax bracket of the company is 50%

(ii) The current selling price of Equity Share is ₹ 100.

(iii) It is expected that the company pays current dividend of ₹ 5 per share at the end of next year and the expected growth rate of dividend is 5%. The cost incurred for raising share is ₹ 8 per share.

(iv) 10%, 100 ₹ face value Preference Share sells at ₹ 150. The company has to bear underwriting commission of ₹ 8 per preference share.

(v) 10% Debenture with the face value of ₹ 100, for 10 years can be sold by the company. The company has to incur 5% underwriting fee on issued price of debenture.

You are required to calculate the Weighted Average Cost of Capital by using market value weights.

2. **[A]** Calculate the intrinsic value of the equity share of ABC Limited from the following data: **[7]**

- The current dividend on equity share of ABC Limited is ₹ 2.
- The company is expected to enjoy an above-normal growth rate of 20% for a period of 6 years.
- The growth rate falls and stabilizes at 10%.
- Equity investors require a return of 15%.

(P.T.O)

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[B] **(1)** Calculate the value of a bond from the following data: [7]

- The par value of the bond is ₹ 100
- It bears a coupon rate of 12%
- It will mature after 8 years
- The required rate of return on the bond is 14%.

($PVFA_{14\%,8} = 4.639$ and $PVF_{14\%,8} = 0.351$)

(2) PQ Ltd. is proposing to issue 5 year 12% preference shares. The shares will be redeemed at ₹ 130 at the end of 5th year. Its face value is ₹ 100. If an investor has a minimum required rate of return of 15%, what is the present value of such preference shares for him? ($PVFA_{15\%,5} = 3.352$ and $PVF_{15\%,5} = 0.497$)

OR

[A] A company expects to pay a dividend of ₹ 14 next year, which is expected to grow at 8%. It retains 40% of earnings. Assume a capitalization rate of 10%. You are required to calculate **(a)** the expected earnings per share next year (EPS) **(b)** return on equity (ROE), and **(c)** the price of share with zero growth and with 8% growth. [7]

[B] **(1)** An investor is considering the purchase of the following bond: [7]

Face Value 1000 ₹
Market Price 1050 ₹
Years to Maturity 10 years
Coupon Rate 10% p.a.
What would be his yield?

(2) For a company, the expected dividend is ₹ 4. Compute the price at which shares will sell, if the required rate of return is 15% and the growth rate in dividend is expected to be 5%.

3. [A] Define Derivatives. Discuss its characteristics in detail. [7]
   [B] Explain Certainty Equivalent Approach in detail. [7]

OR

   [A] Discuss the Decision Tree Approach in detail. [7]
   [B] Explain the difference between Futures and Options. [7]

4. [A] Explain Gordon Model in detail. [7]
   [B] Discuss the determinants of dividend policy. [7]

OR

   [A] Define dividend and discuss the various types of dividend policies. [7]
   [B] Explain the Walter's Model of Dividend Theory. [7]

5. **Do as directed** (Attempt **any 7 out of 12**): **[14]**

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(1) The value of bond is present value of contractual payments it gets till maturity. (True/False)
(2) Find the present value of ₹ 1200 at 9% received after 3 years.
(3) Cost of Capital is the _____ required rate of return expected by investors. (Fixed, Minimum, Maximum, Variable)
(4) What is the cost of 1000 ₹ face value, 10% irredeemable bond with 12% required rate of return?
(5) Find the value of perpetual 10%, 100 ₹ face value Bond with 13% required rate of return.
(6) Retained Earnings are the cost-free source of funds. (True/False)
(7) There is potential of unlimited gain and risk of unlimited loss for the option buyer. (True/False)
(8) Future Contracts are standardized in terms of amount or quantity as the case may be. (True/False)
(9) Risk is a possibility of loss or injury from occurrence of adverse or unwanted situation. (True/False)
(10) According to Gordon's dividend model, an investor prefers _____ dividend. (Future, Current, Stable, Expected)
(11) The number of equity shares will _____ due to stock dividend. (Even, Decrease, Neutral, Increase)
(12) Modigliani and Miller Model is also called Dividend _____ Model. (Relevance, Irrelevance, Regulatory, Irregulatory)