



V Semester B.B.A. Degree Examination, Nov./Dec. 2016
(CBCS) (Fresh)

(2016-17 and Onwards)

BUSINESS ADMINISTRATION

5.5. : Elective Paper – I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

Instruction : Answer should be written in **English** only.

SECTION – A

Answer **any five** sub questions. **Each** question carries **2** marks. (5×2=10)

1. a) What do you mean by the transaction motive for holding cash ?
- b) What is lock-box system of decentralised collection policy of cash management ?
- c) Define the term uncertainty.
- d) Which of the following is the capital structure theory ?
 - Net income approach.
 - Traditional approach.
 - MM approach.
 - All the above
- e) Give the meaning of weighted average capital.
- f) What do you mean by ploughing back of profits ?
- g) Expand the terms FSN and SDE.

SECTION – B

Answer **any 3** questions. **Each** question carries **6** marks. (3×6=18)

2. Write a note on Risk-Adjusted Discount Rate (RADR) as an approach for incorporating risk.
3. Briefly explain the method of Discounted Cash Flow (DCF) for corporate valuation.

P.T.O.



4. From the following information, prepare cash budget.

Particulars	April	May	June	July
Opening cash balance	20,000	—	—	—
Collection from customers	1,30,000	1,60,000	1,65,000	2,30,000
Payments :				
Raw-materials purchased	25,000	45,000	40,000	63,200
Salary and wages	1,00,000	1,05,000	1,00,000	1,14,200
Other expenses	15,000	10,000	15,000	12,000
Income tax	6,000	—	—	—
Machinery purchased	—	—	20,000	—

Creditors for raw-materials are allowed one month's credit. There is no lag in payment of salary and wages and other expenses.

5. a) Calculate the weighted average cost of capital of XYZ Co. Ltd. from the following :

Sources	Amount	Cost
Equity shares	₹ 15,00,000	20%
Preference shares	₹ 6,00,000	15%
Retained earnings	₹ 3,00,000	10%
Long term debt	₹ 6,00,000	10%

- b) The current market price of an equity share is ₹ 80. Current dividend per share is ₹ 5 and the dividends are expected to grow at the rate of 6%. Calculate the cost of equity capital.
6. a) What do you mean by economic order quantity ?
- b) Find out the economic order quantity of the raw-material and number of orders to be placed in a year from the following :
- Annual consumption of raw-material – 20,000 units
 Ordering cost per order – ₹ 1,875.
 Carrying cost – ₹ 3 per unit/per annum.

SECTION – C

Answer any 3 questions. Each question carries 14 marks.

(3×14=42)

7. Following are the runs scored by two batsmen A and B in ten innings. Find who is better scorer and who is more consistent.

A	101	22	0	36	82	45	07	13	65	14
B	97	12	40	96	13	08	85	08	56	16



8. The following information is available in respect of a firm.

Earning per share (EPS) ₹ 40

Capitalisation rate (Ke or Ko) 10%

Assumed rate of return on investment (r)

- a) 13% b) 10% c) 8%

You are required to show the effect of dividend payment on the market price per share by using Walter's model when dividend payment ratio is (a) 0% (b) 25% (c) 50% (d) 75% (e) 100%.

9. A company's expected annual net operating income is ₹1,00,000 and it has ₹3,00,000, 10% debentures. The equity capitalisation rate is 12%.

- a) Calculate the value of the firm and overall capitalisation rate under net income approach.
- b) Find out the impact of the value of the firm and over all capitalisation rate if the debt component increased to ₹4,00,000 and if the debt component decreased to ₹2,00,000 assuming cost of debt remaining same.

10. What are the determinants of working capital ? Explain briefly.

11. Write a short note on the following :

- a) Decision tree analysis.
- b) Types of debentures.

SECTION - B

Answer any 2 questions. Each question carries 6 marks. (3x6=18)

1. What is the role of Risk Adjusted Discount Rate (RADR) as an approach for valuing risk?
2. Briefly explain the importance of discounted Cash Flow (DCF) for some investment.