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V Semester B.B.A. Examination, March/April 2021  
(CBCS) (F+R)(2016 – 17 & Onwards)

BUSINESS ADMINISTRATION

5.5 : Elective Paper I : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

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

SECTION – A

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

1. a) What is Co-efficient of variation ?
- b) Give the meaning of composite cost of capital.
- c) What is dividend ?
- d) State any two internal sources of finance.
- e) What is working capital ?
- f) State any two benefits of holding inventories.
- g) Give the meaning of Corporate valuation.

SECTION – B

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

2. Briefly explain the various forms of dividend.
3. Briefly explain the guidelines for Corporate valuation.
4. AM Company Ltd., has two projects X and Y, costing Rs. 5,00,000 each.

The expected cash inflows and the certainty co-efficient are as under

Year	Project X		Project Y	
	Cash inflow	Co-efficient	Cash inflow	Co-efficient
1	3,00,000	0.8	2,00,000	0.9
2	4,00,000	0.7	3,00,000	0.8
3	4,50,000	0.9	3,00,000	0.7

Risk free cut-off rate is 10%, suggest which of the two projects should be preferred.



5. A Company issues 10,000, 15% preference shares of Rs. 100 each, cost of issue is Rs. 5 per share. Calculate the cost of preference capital, if the shares are issued
- at par
  - at a premium of 20%
  - at a discount of 5%.
6. Prepare an estimate of working capital requirement from the following information of a trading concern.
- Projected annual sales – 1,20,000 units.
  - Selling price per unit Rs. 10.
  - Profit percentage on sales – 30%.
  - Average credit period allowed to customers – 10 weeks.
  - Average credit period allowed by suppliers – 5 weeks.
  - Average stock holding in terms of sales requirements – 5 weeks.
  - Allow 15% for contingencies.

## SECTION – C

Answer **any three** questions. **Each** question carries **fourteen** marks. (3×14=42)

7. From the following information, ascertain which project is more risky on the basis of standard deviation and co-efficient of variation.

Project X		Project Y	
Cash inflow	Probability	Cash inflow	Probability
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

8. Following are the details regarding the capital structure of generation next company.

Sources of Capital	Book Value Rs.	Market Value Rs.	Specific Cost (%)
Equity	8,00,000	10,00,000	20
Preference	4,00,000	6,00,000	16
Debt	3,00,000	4,00,000	12
Retained Earnings	3,00,000	–	14



You are required to determine the weighted average cost of capital using

- 1) Book value as weights
  - 2) Market value as weights.
9. A company's expected annual net operating income is Rs. 2,00,000 and it has 6,00,000, 10% debentures. The equity capitalization rate is 12%.
- a) Calculate the value of the firm and overall capitalization rate under Net Income (NI) approach.
  - b) What is the impact if the debt is
    - i) Increased to Rs. 8,00,000.
    - ii) Decreased to Rs. 4,00,000.
10. A company is expected to have Rs. 20,000 cash in hand on 01/04/2019 and requests you to prepare cash budget for three months from April to June 2019.

The following information is supplied to you.

Month	Sales	Purchases	Wages	Expenses
February	40,000	25,000	4,000	3,000
March	50,000	35,000	5,000	4,000
April	60,000	40,000	6,000	4,500
May	80,000	50,000	6,000	5,000
June	70,000	45,000	5,000	4,000

**Additional Information :**

- a) Period of credit allowed by suppliers is two months.
  - b) 25% of sales are for cash and the period of credit allowed to customers for credit sales is one month.
  - c) Delay in payment of wages and expenses is one month.
  - d) Income tax of Rs. 15,000 is to be paid in June 2019.
11. Explain the factors which influence the dividend decision of a firm.
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