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BCMCMCN 601

**VI Semester B.Com. Degree Examination, June/July 2024
(NEP 2020) (2023 – 24 Batch Onwards)
ADVANCED FINANCIAL MANAGEMENT (DSCC)**

Time : 2 Hours

Max. Marks : 60

SECTION – A

Answer **any five** of the following.

(5×2=10)

1. What is cost of capital ?
2. A Ltd. issues 10,000, 8% debentures of Rs. 500 each at par. Applicable tax rate is 30%. Compute after tax cost of debentures.
3. What do you mean by risk in capital budgeting ?
4. Prakash Ltd. has 1,00,000 equity shares of ₹ 10 each. It has a cost of equity of 10%. Using MM model, calculate the price of the share at the end of the year if ₹ 2 dividend is declared.
5. Advait Ltd. is considering a project and you are required to calculate the expected cash flows :

Cash flows (₹) :	25,000	50,000	1,00,000	1,20,000
Probability :	0.1	0.4	0.4	0.1

6. What is leveraged buyout ?
7. What is MBO ?
8. What is ethics in finance ?



SECTION – B

Answer **any four** of the following.

(4×5=20)

9. Bheem Ltd. issued 15% preference shares of Rs. 100 each. They were redeemable at par after 5 years. Calculate the cost of preference shares :
 - i) if it is issued at par
 - ii) if it is issued at a premium of 25%.
10. Abhee Constructions has Earnings Before Interest and Tax Rs. 12 lakhs. In its capital structure, it has 12.5% debentures of Rs. 32 lakhs. The overall capitalisation rate is 16%. Calculate the total value of the firm and the equity capitalisation rate under NOI approach.

P.T.O.



11. S company employs certainty equivalent approach in the evaluation of the risky projects. The firm has an initial investment of Rs. 1,10,000. The risk free rate of return is 7%. With the information given below, recommend whether the project has to be accepted ? project, should the project be accepted for the following cash flows ?

Year	Project S	
	Expected Cash Inflows (Rs.)	Certainty Equivalent Coefficient
1	90,000	0.8
2	80,000	0.6
3	70,000	0.7
4	65,000	0.8
5	45,000	0.9

Year	1	2	3	4	5
PV factor @ 7%	0.935	0.873	0.816	0.763	0.713

12. BH Co. Ltd. achieved an EPS Rs. 20. The cost of equity was 15% and rate of return was 18%. The dividend payout ratio was 20%. Calculate market price of the share using Gordon's Model. What will be the share price, if payout ratio was increased to 50% ?
13. Compute EPS, share exchange rate as per EPS and total number of shares issued by acquiring company to the shareholders of target company.

Particulars	X : Acquiring Company	Y : Target Company
Number of shares	50,000	30,000
Earnings after tax	Rs. 13,00,000	Rs. 4,00,000
10% Preference Shares	-	Rs. 1,00,000

14. Explain the fundamental principles concerning ethics and governance in Financial Management.



SECTION – C



(2×15=30)

Answer any two of the following.

15. Baka Ltd. has the following capital structure :

Equity share capital (2,00,000 shares)	Rs. 40,00,000
6% Preference shares	Rs. 10,00,000
8% Debentures	Rs. 30,00,000
Total	Rs. 80,00,000

The market price of the company's equity share is Rs. 20. It is expected that the company will pay a current dividend of Rs. 2 per share, which will grow at 7% forever. The tax rate may be presumed at 50%. You are required to compute the following :

- i) Weighted average cost of capital based on existing capital structure.
- ii) New weighted average cost of capital, if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth unchanged, but the price of the share will fall to Rs. 15 per share.

16. From the following information, calculate the market price of the shares of the firms if Dividend Payout Ratio is a) 25% b) 50% and c) 75%. (Use Walter's Model).

	Growth Firm	Normal Firm	Declining Firm
ROI (Return on Investment)	20%	15%	10%
Ke (Cost of Equity)	15%	15%	15%
EPS (Earnings Per Share)	Rs. 4	Rs. 4	Rs. 4

17. From the following details, calculate the standard deviation and coefficient of variation.

Project : Bala		Project : Mala	
Cash Flows (Rs.)	Probability	Cash Flows (Rs.)	Probability
5,600	0.25	40,000	0.25
20,800	0.50	20,800	0.50
36,600	0.25	82,000	0.25

18. Explain the factors determining the dividend policy of a firm.