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V Semester B.B.A. Degree Examination, April - 2022

BUSINESS ADMINISTRATION

Advanced Financial Management

(CBCS Scheme Freshers)

Paper: F.N 5.5

Time : 3 Hours

Maximum Marks : 70

Instructions to Candidates:

Answer should be written in English only.

SECTION - A

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

1. a) What do you mean by systematic risk? Give example.
- b) What is cost of equity share capital.
- c) What is interim dividend?
- d) What is ageing schedule?
- e) What is Leverage?
- f) Mention the deferent motives of holding cash.
- g) Give the meaning of Net Income approach.

SECTION - B

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

2. What is sensitivity analysis? Explain its relevance in project appraisal.
3. Explain the assumptions of Net operating Income approach of capital structure theory.
4. What is EOQ? Find out the EOQ from the following information.

[P.T.O.]



Annual usage - 10,000 units.

Cost of Material - Rs. 10 per unit.

Cost of placing and receiving order - Rs. 25

Carrying cost per unit - 10% of inventory value.

5. Briefly explain net asset method of corporate valuation.
6. Prepare an estimate of working capital requirement from the following information of a trading concern.
 - a) Projected sales 10,000 units.
 - b) Selling price Rs. 10 per unit
 - c) Percentage of Profit on sales 30
 - d) Average credit period allowed to customer 10 weeks.
 - e) Average credit period allowed by Supplier 5 weeks.
 - f) Average stock holding in terms of sales 5 weeks.
 - g) Provide 15% for contingencies.

SECTION 6

Answer any three questions. Each question carries 14 marks.

(3×14=42)

7. Ramu Ltd is considering two mutually exclusive projects 'M' and 'N'. Project 'M' cost Rs. 40,000 and project 'N' costs Rs. 36,000. You have been given below the NPV probability distribution for Each project.

Project M		Project N	
NPV estimates	Probability	NPV estimates	Probability
2000	0.1	3000	0.3
6000	0.3	6000	0.1
8000	0.3	7000	0.3
12000	0.2	12000	0.2
15000	0.1	14000	0.1

- a) Compute the expected NPV of project 'M' and 'N'.
- b) Compute the standard deviation of Each project.
- c) Which project do you consider more risky & Why?



8. ABC Ltd needs R. 30,00,000 for the installation of new factory. The new factory expects to yield annual Earnings before interest and tax (EBIT) of Rs. 5,00,000. In choosing a Financial plan, ABC Ltd., has an objective of maximizing Earnings per share (EPS). The company proposes to issuing ordinary shares and raising debt of Rs. 3,00,000 and Rs. 10,00,000 of Rs. 15,00,000. The current market price per share is Rs. 250 and is expected to drop to Rs. 200 if the funds are borrowed in excess of Rs. 12,00,000. Funds can be raised at the following rates.

- Upto Rs. 3,00,000 @ 8%
- Over Rs. 3,00,000 to 15,00,000 at 10%.
- Over Rs. 15,00,000 at 15%

Assume a tax rate of 50% and advice the company.

9. A company is expecting to have Rs. 25000 cash in hand on 1st April 2021 and it required you to prepare cash budget for the three months, April to June 2021. The following information is supplied to you:

Month	Sales (Rs.)	Purchases (Rs.)	Wages (Rs.)	Expenses (Rs.)
February	40,000	32,000	4,000	3,500
March	45,000	34,000	5,500	4,000
April	55,000	36,000	5,500	4,500
May	60,000	42,000	6,000	5,000
June	65,000	38,000	8,000	5,000

Other information:

- Period of credit allowed by supplies is 2 months.
 - 25% of sales is for cash and the period of credit allowed to customers for credit sales is one month.
 - Delay in payment of wages and expenses one month.
 - Income tax Rs. 20000 is to be paid in June 2021.
10. Explain the determinants of working capital.
11. The earnings per share of a company are Rs. 80 and the rate of capitalization applicable to the company is 12%. The company has before it an option of adopting a payment ratio of 25% (Or) 50% (Or) 75%. Using walter's formula of dividend payout, compute the



market value of company's share of the productivity of retained earnings

- i) 12%
- ii) 8%
- iii) 5%

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