Seat No:_____________ Enrollment No:_____________

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Winter 2022-23 Examination

Semester: 5 **Date: 11/10/2022**
Subject Code: 06101337 **Time: 10.30am to 1.00pm**
Subject Name: Advance Financial Management **Total Marks: 60**

Instructions
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed.

A) Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1.The expected rate of return on a bond if bought at its current market price and held to maturity_____.

a. yield to maturity
b. current yield
c. coupon yield
d. capital gains yield

2. Type of option that gives right to buyer to sell underlying option at specific exercise price is considered as_________________.

a. call option
b. put option
c. European option
d. All of the above

3. The dividend-payout ratio is equal to

a. the dividend yield plus the capital gains yield
b. dividends per share divided by earnings per share.
c. dividends per share divided by par value per share.
d. dividends per share divided by current price per share

4. In case, cost of capital is 10%, EPS Rs. 10, IRR 8 % and Retention Ratio is 60%, then the value of equity share as per Gordon's Model will be _________________.

a. Rs. 87
b. Rs. 90
c. Rs. 77
d. Rs. 100

5. In the formula $k_e = (D_1/P_0) + g$, what does g represent?

a. the expected price appreciation yield
b. the dividend yield from a preferred stock.
c. the interest payment from a bond.
d. None of the above

B)Define the following. (Each of 1 mark) **(05)**

1. Perpetual Bond
2. Spot Contract
3. Yield to Maturity
4. Derivatives
5. Certainty Equivalence

C).Direct questions. (Each of 1 mark) **(05)**

1. Give formula of Equity Share as per Gordon's dividend Model.
2. Differentiate between call option and put option.
3. Give formula of CAPM.
4. Write one difference between risk and uncertainty.
5. List down any two determinants of Dividend policy.

Q.2 Answer the following questions.

A) Beta Company is considering following two projects for investment purpose. Initial Investment required to be done in project X and project Y is Rs.3,50,000 and Rs. 5,90,000 respectively. Risk free rate of return is 10%. Suggest company which project should be considered for the investment.

	Project X		**Project Y**	
Year	**Cash flow(in Rs.)**	**Certainty Equivalent**	**Cash flow(in Rs.)**	**Certainty Equivalent**
1	55,000	0.6	40,000	0.6
2	78,000	0.8	98,000	0.8
3	96,000	0.7	1,10,000	0.5
4	1,02,500	0.9	1,40,000	0.9
5	1,35,800	0.58	1,65,800	0.8

(07)

Suggest company which project should be considered for the investment using Net Present Value method of capital Budgeting.

B) Discuss Walter's relevance theory of Dividend with suitable example. **(08)**

Q.3 Answer the following questions.

A) Essar Chemicals Ltd. Issued 15% preference share with a face value of Rs. 3,500, redeemable after 5 years. Required rate of return is 10%. Determine the value of preference share. **(07)**

B) Define Derivatives and differentiate between forward contract and future contract. **(08)**

Q.4 Attempt any two questions. (Each of 7.5 mark) **(15)**

1. Using following information calculate weighted average cost of capital of CDM Ltd using book value and market value of capital.

Type of Capital	**Book Value**	**Market Value**	**Specific Cost (%)**
Debt	5,00,000	4,50,000	5
Preference Share	3,50,000	3,80,000	8
Equity Share	7,00,000	8,50,000	15
Retained Earnings	3,00,000	2,50,000	13
Total	**18,50,000**	**19,30,000**	

2. A company issues a new 10% debentures of Rs.2000 face value to be redeemed after 10 years. The debentures is expected to be sold at 5% discount. It will also involve floatation costs of 5% of face value. The company's tax rate is 35%. What would the cost of debt be? Do the computation using i) trial and error approach ii) shortcut method

3. Gama Textiles Ltd. has declared dividend of Rs. 3 per share last year on all equity shares. The dividend per share is expected to grow by 12% for first and second year. For third and fourth year the dividend growth rate would become 10%. From fifth year onwards dividend growth rate is expected to stabilize at 8% till infinity.

If required rate of return is 10% calculate intrinsic value of equity share of Gama Textiles Ltd.

4. Discuss in detail different factors that determines Dividend Policy of a firm.