# PARUL UNIVERSITY
## FACULTY OF MANAGEMENT
### BBA Winter 2023-24 Examination

Semester:05                                    Date: 18/10/2023
Subject Code: 06101337                         Time: 10:30am to 1:00pm
Subject Name: Advance Financial Management - I  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.

|  |  | CO | PO | Bloom's Taxonomy |
|---|---|---|---|---|
| **Q.1** | **Do as Directed.** | | | |
| **A).** | **Multiple choice type questions/Fill in the blanks.   (Each of 1 mark)   (05)** | | | |
| 1. | The cost of capital for a company is: | 1 | 3 | 2 |
| | a) The interest rate paid on long-term debt   c) The rate of return required by equity shareholders | | | |
| | b) The weighted average of the costs of equity, debt, and preferred stock   d) The company's profit after tax | | | |
| 2. | Which of the following is a type of derivative contract that gives the holder the right, but not the obligation, to buy an asset at a specified price before or at a specified future date? | 2 | 2 | 2 |
| | a) Swap   c) Option | | | |
| | b) Forward   d) Future | | | |
| 3. | What does Financial Management involve? | 1 | 1 | 2 |
| | a) Managing only the company's financial statements   c) Managing and controlling a firm's financial resources and decisions | | | |
| | b) Managing the marketing strategies of a company   d) Managing only the payroll and employee benefits | | | |
| 4. | What is the primary purpose of using derivatives for risk management? | 2 | 3 | 2 |
| | a) To increase overall risk exposure   c) To speculate on market movements | | | |
| | b) To hedge against unfavorable price movements   d) To avoid compliance with financial regulations | | | |
| 5. | The dividend payout ratio is calculated as: | 3 | 4 | 1 |
| | a) Dividends per share / Earnings per share.   c) Earnings per share / Dividends per share | | | |
| | b) Dividends per share / Market price per share.   d) Market price per share / Dividends per share. | | | |
| **B).** | **Define the following.  (Each of 1 mark)   (05)** | | | |
| 1. | Explicit Cost | 1 | 2 | 1 |
| 2. | Debentures | 2 | 3 | 1 |
| 3. | Yield to Maturity | 3 | 3 | 1 |
| 4. | Options | 2 | 1 | 1 |
| 5. | Dividend | 4 | 3 | 1 |

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

| | | | | | |
|---|---|---|---|---|---|
| 1. | What is put contract ? | | 2 | 1 | 1 |
| 2. | Expand : CAPM | | 3 | 2 | 2 |
| 3. | Redeemable Preference share | | 3 | 3 | 2 |
| 4. | What is Spot Contract ? | | 1 | 2 | 2 |
| 5. | Give formula :  WACC | | 3 | 4 | 1 |

**Q.2 Answer the following questions.**

Ananta software Pvt. Ltd. has the following capital structure:                1    3    4

Equity: Rs. 2,000,000 (500,000 shares outstanding at Rs. 4 per share)
Debt: Rs. 1,000,000 at an interest rate of 8%

**A).** Preferred Equity: Rs. 500,000 at a dividend rate of 6%          **(07)**
The company's tax rate is 30%.

Calculate the Weighted Average Cost of Capital (WACC) for Ananta
Software Pvt. Ltd.

Shinora textiles has issued redeemable bonds with a face value of       3    2    3
$1,000,000. The bonds have a coupon rate of 6% and are redeemable in 10

**B).** years. The current market price of the bonds is $950 per bond. Calculate     **(08)**
the cost of redeemable debt for Shinora Textiles Ltd.

**Q.3 Answer the following questions.**

**A).** Examine the Differences Between Future and Forward Contracts: Assess      **(07)**    3    3    3
Their Advantages, Risks, and Applications in Financial Markets.

**B).** Illustrate Gordan and Walter model of Dividend with example.          **(08)**    1    2    3

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

1. Write an Explanatory note on determinants of dividend and its types.       3    1    2
2. Munani Corporation is expected to pay an annual dividend of $3 per       2    4    4
   share. Dividends are expected to grow at a constant rate of 5% per year
   indefinitely. The required rate of return for investors in Munani
   Corporation is 10%. Calculate the valuation of Munani Corporation's
   equity using the Constant Growth Model.
3. Company Niyami has issued preference shares with a face value of       2    3    4
   $100 each. The annual dividend rate on these preference shares is 8%.
   Calculate the cost of preference shares for Company Niyami.
4. Define Derivatives and explain its characteristics using examples.       4    2    3