Seat No:______________ Enrollment No:______________

PARUL UNIVERSITY

FACULTY OF MANAGEMENT

BBA Winter 2019-20 Examination

Semester: 5th **Date: 05/12/2019**
Subject Code: 06101337 **Time: Time: 10:30am to 01:00pm**
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.

Q.1 Do as Directed.

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

1. Consider a graph with standard deviation on the horizontal axis and expected return on the vertical axis. The line that connects the risk-free rate and the optimal risky portfolio is called:

a) the characteristic line b) the security market line
c) the capital market line. d) the indifference curves.

2. An investor bought a put option on a stock with a strike price Rs. 2000 for Rs. 200. The option will be in the money when _______

a) The stock price is less than Rs. 2000 b) The stock price is greater than Rs. 2200
c) The stock price is greater than Rs. 2000 d) The stock price is less than Rs. 1800

3. Which one of the following is the assumption of Gordon model

a) Ke>g b) The retention ratio is constant after once firm decided it
c) It is all equity firm d) All the above

4. Type of contract which involves future exchange of assets at a specified price is classified as

a) future contracts b) present contract
c) present contract d) forward contract

5. An actual rate of return is subtracted from expected growth rate then it is divided from dividend stockholders expect use for calculating

a) dividend growth model b) constant growth model
c) actual growth model d) variable growth model

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

1. Explicit Cost
2. Dividend
3. Redeemable Preference Share
4. Expand: RADR
5. Risk Management

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

1. Give formula of Cost of Bond (Perpetual Bond).
2. List down types of Dividend policy.
3. Give formula of Walter's Dividend Model
4. Give Formula: Value of Irredeemable Preference Share
5. Give formula: CAPM

Q.2 Answer the following questions.

A) Considering below mentioned information calculate Cost of Equity using Capital Asset Pricing Model. **(07)**

Year	Risk Free Rate (Rf)	Market Rate (Rm)	Security Return (Rj)
1	0.09	0.12	0.11
2	0.05	0.07	0.12
3	0.07	0.24	0.25
4	0.05	0.29	0.07
5	0.08	0.06	0.29

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

Q.3 Answer the following questions.

A) Define Derivatives and differentiate between forward contract and future contract. **(07)**

B) Lemon Hotels Ltd. Issued 13% preference share with a face value of Rs. 8,000, redeemable after 10 years. Required rate of return is 10%. Determine the value of preference share. **(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	6,00,000	3,50,000	7
Preference Share	2,50,000	4,80,000	10
Equity Share	8,00,000	7,50,000	13
Retained Earnings	2,00,000	3,50,000	12.5
Total	18,50,000	19,30,000	

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

3. Alfa Company is considering following two projects for investment purpose. Initial Investment required to be done in project X and project Y is Rs.4,50,000 and Rs. 5,00,000 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	68,000	0.6	75,000	0.6
2	80,000	0.8	69,000	0.8
3	99,000	0.7	94,500	0.5
4	1,25,400	0.9	1,25,600	0.9
5	1,40,560	0.8	1,70,258	0.8

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

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