Seat No:_____________ Enrollment No:_____________

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Winter 2018 - 19 Examination

Semester: 5 **Date: 30/10/2018**
Subject Code: 06101337 **Time: 2:00 pm to 4:30 pm**
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.
Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1 Face value of a bond is also called
- a) Replacement value
- b) Market value
- c) Par value
- d) Liquidation value

2 The cost of preference shares is computed on
- a) Before-tax basis
- b) Coupon-rate basis
- c) After-tax basis
- d) Floatation cost

3 Companies mostly pay dividends in
- a) Stock dividend
- b) Cash
- c) Bonus shares
- d) Shares buyback

4 One of the following is not a method of handling risk:
- a) Loss assumption method
- b) Loss control methods
- c) Loss financing methods
- d) Internal loss control methods

5 __________is the term used for reducing risk by using derivatives.
- a) Waiving
- b) Hedging
- c) Revoking
- d) Diminishing

B). Define the terms: (1 Mark each) **(05)**
1. Historical Cost
2. Diversifiable Risk
3. Peril
4. Spot Contract
5. Bonus Shares

C). Direct questions. (Each of 1 mark) **(05)**
1. Write the formula of Net proceeds when debentures are issued at discount.
2. What is Coupon Rate?
3. What do you understand by CAPM?
4. What is RADR?
5. Why do companies pay dividends?

Answer the following questions.

A). What are Derivatives ? Explain the various types of Derivatives. **(07)**

B). Calculate cost of retained earnings in each of the following cases:

a) Mr. X holds 500 shares of Rs.100 each in Vimco Ltd. The company has earned Rs.18 per share and distributed Rs.10 per share as dividend among the shareholders and the balance is retained. The market price of the share is Rs.160 each. Personal Income tax applicable to Mr.X is 30%.

b) The following information was obtained from Laxmi Ltd: **(08)**

Current Market Price of a share	Rs.140
Cost of floatation/brokerage per share	3% on Market price
Growth in expected dividends	5%
Expected dividend per share on new shares	Rs.14
Shareholders marginal /personal income tax	30%

Q.3 Answer the following questions.

A). Consider the following information and calculate yield to maturity : **(07)**

Face Value	Rs.100
Current Market price	Rs.95
Redeemable Value	Rs.100
Annual Interest Rate	13%
Time to maturity	6years

B). The details regarding the companies are below: **(08)**

A Ltd	**B Ltd**	**CLtd**
r=15%	r=10%	r=8%
Ke=13%	Ke= 10%	Ke= 10%
E= Rs.20	E= Rs.20	E = Rs. 20

Compute the market value of an equity shares of each company applying Gordon's formula when dividend payout ratio is a) 30% b) 20% c) 50%

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

1. A company issues a new 10% debentures of Rs.1000 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

2. A company pays dividend of Rs 2. It is expected to grow at 20% for 4 years. The normal growth rate after that period is expected at 5% . Required rate of return is 12%. Find out the price at present by using Dividend Capitalisation Method .

3. Define risk and state its characteristics . Distinguish between risk and uncertainty.

4. A ltd is having a paid up share capital of 40,000 shares of Rs.100 each. The firm is thinking to declare a dividend of Rs.4 per share at the end of the current year.

The Capitalisation rate of the firm is 10%. The firm except to earn net earnings of Rs.4,00,000 and and Rs. 4,00,000 and has an investment proposal of Rs.800000.

Show the price of the shares of the shares if-

i) A dividend is declared
ii) A dividend is not declared