

**PARUL UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**BBA, Winter 2017 - 18 Examination**

**Semester: 5**  
**Subject Code: 06101337**  
**Subject Name: Advance Financial Management-I**

**Date: 09/01/2018**  
**Time: 2:00 pm to 4:30 pm**  
**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. Cost of Capital is the \_\_\_\_\_ required rate of return expected by investors.
 

a) maximum	c) minimum
b) fixed	d) variable
2. Premium Instruments Ltd. has declared Rs. 10 dividend per share. If required rate of return is 16%, what would be value of Share \_\_\_\_\_?
 

a) Rs. 60	c) Rs. 160
b) Rs. 62.5	d) Rs. 65
3. Implicit Cost is also known as \_\_\_\_\_.
 

a) Marginal cost	c) Opportunity Cost
b) Economic cost	d) Out of Pocket cost
4. Which of the following financial Instrument does not have value of its own \_\_\_\_\_?
 

a) Equity Share	c) Bond
b) Preference Share	d) Derivatives
5. Retention ratio is 0.60 and return on equity is 15.5% then growth retention model would be \_\_\_\_\_.
 

a) 14.90%	b) 16.10%
c) 25.84%	d) 9.30%

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

1. Yield To Maturity
2. Forward
3. Explicit Cost
4. Derivatives
5. Dividend

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

1. Define Perpetual Bond.
2. List down any two determinants of Dividend policy.
3. How spot market is different than future market. ?
4. Give formula of CAPM.
5. Give formula of Cost of Bond (Perpetual Bond)

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

- A).** Current selling price of Explore Ltd. bonds is Rs.115.They Have a 11% coupon rate of interest and Rs. 100 par value. The Interest is paid annually and the bonds have 18 years to maturity. Compute the yield to maturity(YTM) of the bond. Compare the compute YTM with coupon rate of interest. How do you explain the difference between the current price and par value of bond. **(08)**
- B).** Discuss Gordon's relevance theory of Dividend with suitable example. **(07)**

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

A). Differentiate between Forwards and Futures of derivative market. (07)

B). (08)

Year	Risk Free Rate(Rf)	Market Rate(Rm)	Security Return (Rj)
1	0.06	0.12	0.06
2	0.05	0.03	0.11
3	0.07	0.21	0.29
4	0.06	0.26	0.25
5	0.09	0.03	0.07

Considering above information of market return and security return calculate Cost of Equity using CAPM.

**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	12,50,000	15
Retained Earnings	3,00,000		13
<b>Total</b>	<b>18,50,000</b>	<b>20,80,000</b>	

2. Delta Company is considering following projects for the investment purpose. Initial Investment in the project A is. Rs. 1,70,000 and in project B is Rs. 1,50,000. Expected Net cashflow of the projects is given below. Required rate of return is 10%.

Year	Project A		Project B	
	Cashflow (in Rs.)	Certainty - Equivalent	Cashflow (in Rs.)	Certainty Equivalent
1	90,000	0.8	90,000	0.9
2	1,00,000	0.7	90,000	0.8
3	1,10,000	0.5	1,00,000	0.6

Calculate NPV of both the projects and answer which Project should be acceptable to the company ?

3. Discuss in detail all determinants of Dividend Policy.

4. Swishkar pays Rs. 3 per share as annual dividend. Assuming 10% required rate of return on shares( $K_e$ ), compute the value of shares considering following situations:

I. Annual rate of growth, Zero (0) % indefinitely

II. Annual Constant growth rate of growth, 5 % to infinity

III. (iii) Annual rate of growth , 5% for each of the next 3 years, followed by a constant annual rate of growth of 4% from 4<sup>th</sup> year to Infinity.