

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Summer 2018-19 Examination

Semester: 5**Subject Code: 06101337****Subject Name: Advance Financial Management - I****Date: 17/05/2019****Time: 02:00pm To 04:30pm****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.**05****Multiple choice type questions/Fill in the blanks. (Each of 1 mark)**

1. Derivatives do not have their own _____.
a) Value c) Dividend
b) interest rate d) none of the above
2. Modigliani and Miller argue that the dividend decision _____.
a) is irrelevant as the value of the firm is based on the earning power of its assets
b) is relevant as cash outflow always influences other firm decisions
c) is relevant as the value of the firm is not based just on the earning power of its assets
d) all of the above
3. ABC Ltd. has retention ratio is 0.40 and return on equity is 20.5% then growth retention model would be _____.
a) 9% c) 8.5%
b) 20.9% d) 8.2%
4. Cost of Capital is the _____ required rate of return expected by investors.
a) maximum c) minimum
b) fixed d) variable
5. Dhumal Ltd. has declared Rs. 20 dividend per share. If required rate of return is 10% , what would be value of Share _____.
a) Rs. 210 c) Rs. 200
b) Rs. 201 d) Rs. 220

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

1. Yield To Maturity
2. Futures market
3. An implicit cost
4. Expand :RADR
5. Expand : CAPM

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

1. Define Irredeemable Preference Share.
2. List down any two determinants of Dividend policy. :
3. Differentiate between cash market and forward market.
4. Define derivatives.
5. Give formula : Equity Share (Zero Growth Model)

Q.2 Answer the following questions.

- A** Shubhlabh Pharma Ltd. issued 15% Preference share with a face value of Rs. 120 , redeemable after 5 years. Required rate of return is 10%. Determine value of Preference Share. **07**

- B** **08**

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

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

Q.3. Answer the following questions :

- A** Beta Ltd. is considering following projects for the investment purpose. Initial Investment in the project X is. Rs. 4,70,000 and in project Y is Rs. 3,50,000. Expected Net cash flow of the projects is given below : Risk less rate of return is 10%. **07**

Year	Project X		Project Y	
	Cashflow (in Rs.)	Certainty - Equivalent	Cashflow (in Rs.)	Certainty - Equivalent
1	90,000	0.8	1,00,000	0.9
2	1,20,000	0.7	80,000	0.8
3	1,80,000	0.5	2,00,000	0.6

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

- B** Discuss in detail Gordon's model of Dividend Policy. **08**

Q.4 Answer the following questions : (Any two each of 7.5 marks)**15**

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

Type of Capital	Book Value	Market Value	Specific Cost (%)
Debt	6,00,000	5,50,000	5
Preference Share	4,50,000	4,80,000	8
Equity Share	5,00,000	8,50,000	15
Retained Earnings	1,00,000		13
Total	16,50,000	18,80,000	

- 2.** Define Derivatives and differentiate between forward market and future market.
- 3.** Discuss in detail different factors that determines Dividend Policy of a firm.
- 4.** Face Value of Bond being sold by GAMA Ltd. Is Rs. 100 , coupon rate of bond is 8% and maturity is after 10 years.
- a. If interest is paid annually, find out the value of bond when required rate of return is (i.)7% and (ii) 8% (iii) 10%. Indicate for each case whether the bond is selling at a discount, at par or at premium.
- b. Using 10% required rate of return , what would be the value of bond if interest is paid semiannually ?