627152 DEBB504

Reg. No.

V Semester B.B.A.Degree Examination, January/February - 2025

BUSINESS ADMINISTRATION

Advanced Corporate Financial Management

(NEP Scheme (F+R))

Time : 2½ Hours **Maximum Marks : 60**

Instructions to Candidates : ***Answer should be written in English only.***

SECTION - A

Answer any Five of the following questions. Each question carries Two marks.

(5×2=10)

1. a) Give the meaning of cost of capital.
   b) Provide any two assumptions of NI Approach.
   c) What is business risk.
   d) Give the meaning of cash management
   e) What is dividend
   f) State any two motives of holding inventory.
   g) State any two types of risks in capital budgeting.

SECTION - B

Answer any Four of the following questions. Each question carries Five marks.

(4×5=20)

2. Explain the significance of stable dividend policy.
3. Following is the capital structure of Narayana Company.

	Rs.
Equity capital	4,00,000
10% preference share capital	2,00,000
Retained earnings	1,00,000
5% Debentures	3,00,000
	10,00,000

Cost of Equity is 15% and retained earnings is 8% . Calculate the weighted average cost of capital.

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4. The Hypothetical company Ltd. has given the following possible cash inflows for two of their projects X & Y out of which one they wish to undertake together with their associative probabilities both the projects will require an equal investment of Rs.5,000

Possible	Project X		Project Y	
Event	Cash Flow	Probabilities	Cash Flow	Probabilities
A	4,000	0.10	12,000	0.10
B	5,000	0.20	10,000	0.15
C	6,000	0.40	8,000	0.50
D	7,000	0.20	6,000	0.15
E	8,000	0.10	4,000	0.10

which project is more risky by adopting standard deviation method.

5. A firm sells its products for Rs. 10 per unit of which Rs. 7 represents variable costs. Current annual sales are Rs. 12,00,000 entirely on credit.

The firm is considering more liberal extension of credit which will result in slowing the process of average collection period from 1 month to 2 months.

The relaxation in credit terms is expected to produce a 25% increase in sales i.e., Rs.15,00,000.

Advice the firm regarding adoption of new policy assuming that the firm's required rate of investment is 25%.

6. Explain the problems associated with the determination of cost of capital.

SECTION - C

Answer any Two of the following questions. Each question carries Twelve marks.

(2×12=24)

7. Explain the techniques of Inventory management in detail.

8. Given the following information of the Balu Ltd., show the effect of the dividend policy on the market price of its shares using Walters Model.

   a) Equity capitalisation rate = 12%

   b) Earning per share = Rs. 8

   c) Assumed rate of investment (r) are as follows:

      i) r = 15%

      ii) r = 10%

      iii) r = 12%

   The company is considering a payout of 25%, 50%, and 75%.

9. M/S Albert & Co. has the following capital structure as on 31.12.2023.

Particulars	Rs.
10 % Debentures	3,00,000
9 % Preference shares	2,00,000
Equity-5,000 of Rs. 100 each	5,00,000
Total	**10,00,000**

The equity shares of the company are quoted at Rs. 102 and the company is expected to declare a dividend of Rs. 9 per share for 2024. The company has registered a dividend growth rate of 5% which is expected to be maintained.

a) Assuming the tax rate applicable to the company at 50%. Calculate the weighted average cost of Capital, state your assumptions, if any

b) Assuming, that the company can raise additional term loan at 12% for Rs. 5,00,000 to finance an expansions, calculate the revised weighted cost of capital. The companys assessment is that it will be in a position to increase the dividend from Rs. 9 per share to Rs. 10 per share, but the business risk associated with new financing may bring down the market price from Rs. 102 to Rs. 96 per share.

SECTION - D

Answer any One of the following questions carries Six marks.

(1×6=6)

10. Calculate the different ratios under receivable management using imaginary figures.

11. Compare Net Income Approach and Net operating Income Approach.