



B. P. COLLEGE OF BUSINESS ADMINISTRATION

(A Constituent college of Kadi Sarva Vishwavidyalaya)

MID SEM Examination – September – October 2013

Date: / /13

BBA SEM – V

Total marks: 60

Roll No.....

SUB: Advance Financial Management (BBA 30)

Duration: 3 hrs

Q: 1 A company has following capital structure:

Equity Share Capital of Rs.10 each	Rs.10,00,000
12% Preference Share Capital	Rs.6,00,000
10% Debentures	Rs.4,00,000

Additional Information:

- 10% debentures redeemable after 10 years. The face value of debenture is Rs.100 each. Debentures are issued at 10% discount. Market value of debenture is Rs.105.
- 12% Preference Shares redeemable after 8 years. The face value of Preference Shares is Rs.100 each. Preference Shares are issued at 5% premium. Market value of debenture is Rs.95.
- Market value of Equity share is Rs.18 per share. Anticipated next year dividend is Rs.2 per share. The growth rate in dividend is 7%.
- The corporate tax rate is 40%.

Calculate WACC by using book value and market value. (Use Short-cut method where ever applicable) [12]

Q: 2 [A] Choose correct answer: [6]

- A company has perpetual debentures of Rs.100 each issued at 10% premium. Interest rate is 8%. Tax rate is 35%. Find out after tax cost of debt.
(a) 3.72% (b) 4.73% (c) 4.95% (d) 3.81%
- Which Dividend policy model is relevant to value of the firm?
(a) Walter (b) Gordon (c) Both (d) None
- EBIT of Company is Rs.200000, market value of equity share is Rs.800000 and book value of debt is Rs.400000. Find out overall cost of capital.
(a) 12.5% (b) 50% (c) 25% (d) None
- According to Traditional approach, when the firm increases leverage, the value of the firm will first and then
(a) Increase, decrease (c) Decrease, Increase
(b) Increase, Increase (d) decrease, decrease
- A firm is considered as a growth firm if it satisfies the following condition:
(a) $r < k$ (b) $r = k$ (c) $r > k$ (d) $r = 0$
- Which model explains arbitrage process for equilibrium of values of two firms?
(a) NI approach (c) Traditional Approach
(b) MM approach (d) NOI approach

Q: 2 [B] Write detailed note on CAPM. [6]

OR

Q: 2 [B] Explain various cost concept of cost of capital. [6]

- Q: 3 What are the merits and demerits of listing of securities? [12]
OR
- Q: 3 What are advantages and disadvantages of venture capital financing? [12]
- Q: 4 Define Capital Structure. What are determinants of capital structure? [12]
OR
- Q: 4 From the following data, calculate value of Company A, Company B and Company C by using Net Income Approach. All companies have same amount of Net operating income of Rs. 4,00,000 and Tax rate is 35%. [12]
Company A - cost of equity 10%. The cost of debt is 6%. Company has debenture of Rs.10,00,000.
Company B - cost of equity 12%. The cost of debt is 8%. Company has debenture of Rs.8,00,000.
Company C - cost of equity 8%. The cost of debt is 6%. Company has debenture of Rs.10,00,000.
- Q: 5 What are the factors affecting dividend policy of a corporate firm? [12]
OR
- Q: 5 Discuss Modigliani and Miller approach for dividend theory with assumptions and limitations. [12]