

SARDAR PATEL UNIVERSITY

T.Y.B.B.A. (GEN) Examination, Semester – VI (NC) (2010 Batch)

Monday, 9th May 2016

Advanced Financial Management - UM06EBBA02

Time: 2.30 PM TO 4.30 PM

Total Marks: 60

Q-1 (A) What is Capital Structure? Discuss the significance of optimum capital structure for the firm. (07)

(B) The Sky Limited provides following financial information. (08)

Net Operating income Rs. 2,00,000

Total Investment Rs. 10,00,000

Equity Capitalize Rare:

• If firm use no debt: 10%

• If firm use 5% Debentures of Rs. 4,00,000 11%

• If firm use 6% Debentures of Rs. 6,00,000 13%

Compute the market value of the firm, value of shares and average cost of capital for each alternative and interpret the results.

OR

Q-1 (A) Discuss the various factors affecting the capital structure of the firm. (07)

(B) SanDisk Limited expects a net operating income of Rs. 2,00,000. It has Rs. 8,00,000, 6% debentures. The overall capitalization rate is 10%. (08)

1) Calculate the value of the firm and the equity capitalization rate (Cost of Equity) according to the net operating income approach.

2) If the debentures debt is increased to Rs. 10,00,000 at same interest rate. What will be the effect on volume of the firm and the equity capitalization rate?

Q-2 (A) What is Dividend? Discuss the variables influencing dividend decision of the firm. (07)

(B) Calculate the market price of a share of ABC Ltd under (i) Walter's model and (ii) Dividend growth model from the following data; (08)

Earnings Per Share = Rs. 10;

Dividend Per Share = Rs. 6;

Cost of Equity (K_e) = 20%;

Internal Rate of Return (r) = 25% ;

Retention ratio (b) = 60%

OR

Q-2 (A) Discuss the significance of dividend decision in financial policy. (07)

(B) What is the theory of Dividend Irrelevancy advocated by Modigliani and Miller? What are its basic assumptions? (08)

Q-3 (A) The RK Ltd., in considering the purchase of a new investment. Two alternative investments are available (X and Y) each costing Rs. 150000. Cash inflows are expected to be as follows: (07)

Year	Investment (X) Rs.	Investment (Y) Rs.
1	60000	65000
2	45000	55000
3	35000	40000
4	30000	40000

The company has a target return on capital of 10%. Risk premium rate are 2% and 8% respectively for investment X and Y. Which investment should be preferred?

(B) What is Risk? Which statistical techniques are used for risk analysis in capital budgeting? (08)

OR

Q-3 (A) Write note on "Sensitivity Analysis" (07)

(B) There are two projects A and B. Each involves an investment of Rs. 50,000. The expected cash inflows and the certainty co-efficient are as under: (08)

Years	Project A		Project B	
	Cash inflow (Rs.)	Certainty Equivalent	Cash inflow (Rs.)	Certainty Equivalent
1	35,000	0.8	25,000	0.9
2	30,000	0.7	35,000	0.8
3	20,000	0.9	20,000	0.7

Risk-free cutoff rate is 10%. Suggest which of the two projects. Should be preferred.

Q-4 Explain the following terms; (15)

- 1) Foreign Exchange Market
- 2) Spot Rate
- 3) Forward rate
- 4) Bid and Ask rate
- 5) Spread

OR

Q-4 Discuss Internal and External Foreign exchange risk management techniques. (15)

— X —
(2)