

SARDAR PATEL UNIVERSITY

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

Monday, 9th May 2016

Advanced Financial Management - UM06EBBA02

-II-

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)

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(2)