

B.V. Patel Institute of Business Management, Computer & Information Technology
UkaTarsadia University
2nd Internal Examination, BBA5th Semester
030030513: Advanced Financial Management

Marks: 50

Date: 11/10/2017

Time: 2 hrs.

Q-1 Answer the following. (Any Five)			[10]																				
1.	What is residual dividend?																						
2.	What is arbitrage?																						
3.	What is meant by homemade leverage?																						
4.	List the parties involved in tripartite lease.																						
5.	Differentiate between Hire – purchase and Installment Payment.																						
6.	What is horizontal merger and vertical merger?																						
Q-2 Answer the following. (Any Two)			[20]																				
1.	Discuss the Net Income Approach by solving the below example. You are required to calculate overall cost of capital in different situation. A company's expected annual net operating income is Rs. 50,000. The company has Rs. 2,00,000, 10 % debentures. The equity capitalization rate (k_e) of the company is 12.5 %. a) Now assume that firm has decided to raise the amount of debentures by Rs. 1,00,000 b) Now assume that firm has decided to reduce the amount of debentures by Rs. 1,00,000																						
2.	Assuming no taxes and given the earnings before interest and taxes (EBIT), interest (I) at 10 % and equity capitalization rate (k_e) below, calculate the total market value of the firm. <table border="1" data-bbox="225 1205 1251 1397"> <thead> <tr> <th>Firms</th><th>EBIT (Rs)</th><th>I (Rs)</th><th>k_e(%)</th></tr> </thead> <tbody> <tr> <td>X</td><td>2,00,000</td><td>20,000</td><td>12</td></tr> <tr> <td>Y</td><td>3,00,000</td><td>60,000</td><td>16</td></tr> <tr> <td>Z</td><td>5,00,000</td><td>2,00,000</td><td>15</td></tr> <tr> <td>W</td><td>6,00,000</td><td>2,40,000</td><td>18</td></tr> </tbody> </table> Also, determine the weighted average cost of capital for each firm.	Firms	EBIT (Rs)	I (Rs)	k_e (%)	X	2,00,000	20,000	12	Y	3,00,000	60,000	16	Z	5,00,000	2,00,000	15	W	6,00,000	2,40,000	18		
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3.	A company belongs to a risk class for which the appropriate capitalization rate is 10 %. It currently has a outstanding 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. It expects to have a net income of Rs. 2,50,000 and has a proposal for making new investments of Rs. 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm.																						
Q-3 Answer the following in detail. (Any Two)			[20]																				
1.	What is the significance of leasing to the lessee and to the lessor?																						
2.	Which are the various stages of venture capital financing? Explain in detail.																						
3.	Discuss in detail factors that determine the dividend policy.																						