V Semester B.B.A. Examination, December 2024/January 2025
(NEP Scheme) (Freshers and Repeaters)
BUSINESS ADMINISTRATION
FN 1: Advanced Corporate Financial Management

Time : 2½ Hours Max. Marks : 60

***Instruction** : Answers should be written completely in **English**.*

SECTION – A

1. Answer **any 5** questions. **Each** carries **2** marks. **(5×2=10)**
   a) If NOI is ₹ 150 crore, cost of debt (Kd) is 6%, cost of equity (Ke) is 11% and overall cost of capital (Ko) is 10%, Calculate the value of the firm under NOI approach.
   b) What do you mean by Weighted Average Cost of Capital ?
   c) What is risk adjusted discount rate ?
   d) What is a stable dividend policy ?
   e) Mention any 4 types of dividends.
   f) Write the meaning of combination.
   g) What is corporate governance ?

SECTION – B

Answer **any 3** questions. **Each** carries **4** marks. **(3×4=12)**

2. A company issues ₹ 60,00,000, in 12% redeemable debentures at a discount of 5%. The cost of floatation ₹ 1,75,000. The debentures are redeemable after 5 years at par. The tax rate is 50%. Calculate cost of debt capital.

3. Project 'X' cost Rs. 40,000. The expected cash flows and certainty coefficients are as under :

Year	Project X	
	Cash inflow (₹)	Certainty Coefficient
1	25,000	0.8
2	20,000	0.7
3	20,000	0.9

Risk free cut off rate is at 10%. Calculate expected NPV.

4. Find out relationship of dividend policy and value of share according to Gordon's model.

Particulars	Firm A	Firm B
r	0.30	0.20
Ke	0.20	0.20
E	₹ 5	₹ 5

Effect of dividend policy on market value of shares according to Gordon's model when retention ratio is 40% and 60%. Comment on the result.

5. Explain two fundamental principles of business ethics.

6. Describe any two types of mergers with examples.

SECTION – C

Answer **any 3** questions, **each** carries **10** marks. **(3×10=30)**

7. The equity shares of a company quoted as ₹ 105. The company plans to declare a dividend of ₹ 10 per share and growth rate of dividend is 5%. Tax rate is 50%. Calculate weighted average cost of capital, when the capital structure of the company as on 31st March 2024 shows the following details

Equity Shares 9,00,000 of ₹ 1 each	₹ 9,00,000
10% Preference shares	₹ 6,00,000
10% Debentures	₹ 5,00,000

8. From the following information, ascertain which projects is riskier on the basis of standard deviation and also calculate co-efficient of variation.

Project A		Project B	
Cash inflow (₹)	Probability	Cash inflow(₹)	Probability
2,000	0.2	2,000	0.1
4,000	0.3	4,000	0.4
6,000	0.3	6,000	0.4
8,000	0.2	8,000	0.1

9. The following information is available in respect of YRP firm :

   Capitalization rate = 12%, Earnings per share = ₹10

   Assume rate of return on investment

   i) R = 15%   ii) R = 10%

   Show the effect of dividend policy on price of the share by using Walter's formula, when dividend pay-out ratio is 0% or 25% or 50%.

10. Explain how social and environmental issues plays important role in corporate governance.

11. Explain the reasons and types of mergers and combinations.

SECTION – D

Answer **any 1** question from this section. **(1×8=8)**

12. a) Determine the risk adjusted net present value of the following projects :

	Project – X	**Project – Y**	**Project – Z**
Net cash outlays (R)	1,00,000	1,20,000	2,10,000
Project life	5 years	5 years	5 years
Annual cash inflow (R)	30,000	42,000	70,000
Coefficient of variation	0.4	0.8	1.2

The company selects the risk adjusted rate of discount on the basis of the coefficient of variation :

Coefficient of variation	**Risk adjusted discount rate (%)**	**PV factor at risk adjusted discount rate**
0.0	10	3.791
0.4	12	3.605
0.8	14	3.433
1.2	16	3.274
1.6	18	3.127
2.0	22	2.864
More than 2.0	25	2.689

Suggest which project should be selected ?

b) In a medium-sized software company, a junior accountant discovers irregularities in the expense reports of a senior manager. The manager seems to be inflating expenses for personal gain. The employee faces an ethical dilemma–reports the misconduct and risk retaliation or stay silent and compromise integrity.

i) What should the junior accountant do to address this ethical dilemma while protecting their own interests and the company's reputation ?

ii) How can the company foster a culture where employees feel safe reporting ethical violations without fear of retribution ?
