267463 DSEBB-504

V Semester B.B.A. Degree Examination, December/January - 2025/26
(NEP Scheme Freshers and Repeaters)
BUSINESS ADMINISTRATION
Advanced Corporate Financial Management
Paper : FN1

NEW HORIZON COLLEGE LIBRARY KASTURINAGAR BANGALORE-43

Time : 2½ Hours **Maximum Marks : 60**

Instructions :

Answers should be written in English only.

SECTION - A

Answer any FIVE sub-questions. Each sub-question carries 2 marks. (5×2=10)

1. a) What is meant by Weighted Average Cost of Capital (WACC)?

   b) What is risk-adjusted discount rate approach?

   c) What is Modigliani and Miller (M-M) hypothesis?

   d) What is Leverage Buy Out?

   e) What do you mean by retained earnings?

   f) What are ethical issues in financial management?

   g) A company issues Rs. 2,00,000 12% redeemable preference shares, redeemable after 5 years at a premium of 10%. Calculate the cost of preference capital.

SECTION - B

Answer any THREE sub-questions. Each sub-question carries 4 marks. (3×4=12)

2. Every organization seeks an ideal capital mix that minimizes cost and maximizes value. Discuss the different theories of capital structure and their significance in financing decisions.

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3. Dividend policies convey vital signals about a company's financial health. Explain the different types of dividend policies and factors influencing them.

4. A firm has two projects with the following details:

Year	Project X (Rs.)	Project Y (Rs.)
1	3,00,000	2,00,000
2	4,00,000	3,00,000
3	4,50,000	3,00,000

If the cost of capital is 10% and the certainty coefficients are 0.8, 0.7, and 0.9 for Project X, and 0.9, 0.8, and 0.7 for Project Y respectively, determine which project should be preferred.

5. A company issues Rs. 5,00,000 10% debentures at par. Flotation cost is 2% and the tax rate is 30%. Calculate the cost of debt before and after tax.

6. Compute the value of a firm and overall cost of capital for ABC Ltd., under the Net Income Approach, given: EBIT Rs.3,00,000; Debt Rs.6,00,000 @10%; Ke = 12%.

SECTION - C

Answer any THREE sub-questions. Each sub-question carries 10 marks.

(3×10=30)

7. Risk evaluation is a crucial step before committing capital to long-term projects. Discuss the various techniques used for measuring risk in capital budgeting decisions with examples.

8. Theories of dividend attempt to relate payout ratio with firm valuation. Explain and compare the Walter's Model, Gordon's Model, and Modigliani-Miller Theory of dividend relevance and irrelevance.

9. From the following information. Calculate the Weighted Average Cost of Capital (WACC) using both Book Value and Market Value weights:

Source	Book Value(Rs.)	Market Value (Rs.)	Cost (%)
Debt	5,00,000	4,50,000	8
Preference	1,50,000	1,60,000	9
Equity	6,00,000	10,00,000	15
Retained Earnings	2,50,000	3,00,000	13

10. A company's EBIT is Rs. 4,00,000; debt Rs. 10,00,000 @ 10% interest; and Ke = 12%. Calculate the value of the firm and overall cost of capital under both NI and NOI approaches.

11. Explain the motives and benefits of corporate mergers and acquisitions.

SECTION - D

Answer any ONE sub-question. Each sub-question carries 8 marks. (1×8=8)

12. a) The Textile Manufacturing Company Ltd., is exploring two mutually exclusive projects- Project M and Project N. Details are as follows:

Year	Project M (Cash Flow Rs.)	C.E.	Project N (Cash Flow Rs.)	C.E.
1	4,50,000	0.8	4,50,000	0.9
2	5,00,000	0.7	4,50,000	0.8
3	5,00,000	0.5	5,00,000	0.7

The risk-free rate is 6%, and PV factors for years 1, 2, and 3 are 0.943, 0.890, and 0.840 respectively.

Compute the Net Present Value (NPV) for both projects using the Certainty Equivalent Approach, and suggest which should be accepted.

(OR)

b) Quantum Tech Innovations, a tech company, faces corporate governance problems. The CEO also chairs the board, posing a conflict of interest. Shareholders are concerned about transparency and decision-making.

Questions:

(i) How can the company ensure board independence?

(ii) What steps should be taken to address concerns about transparency and decision-making?