B.V. Patel Institute of Business Management, Computer & Information Technology

Uka Tarsadia University

1st Internal Examination, BBA/BCOM/MCOM 5th Semester

030030513: Advanced Financial Management

Marks: 50

Date: 28/08/2017 **Time: 2 hrs.**

Q-1 Answer the following. (Any Five)		**[10]**
1.	Define the term risk in reference to capital budgeting.	
2.	Explain simulation.	
3.	List the four popular techniques to handle risk.	
4.	Define business risk and financial risk.	
5.	List any four assumptions of CAPM approach.	
6.	Define systematic risk and give any two examples.	
Q-2 Answer the following. (Any Two)		**[20]**

1. From the under mentioned facts determine the cost of equity shares of company X.
   i. Current market price of a share = Rs. 150
   ii. Cost of floatation per share on new share Rs. 10
   iii. Dividend paid on the outstanding shares over the past five years

Year	Dividend per share
0	10.00
1	10.70
2	11.45
3	12.25
4	13.11
5	14.03
6	15.01
7	16.06
8	17.18

2. A company has the following estimates of the present values of the future cash flows after taxes associated with the investment proposal, concerned with expanding the plant capacity. It intends to use a decision – tree approach to get a clear picture of the possible outcomes of this investment. The plant expansion is expected to cost Rs. 3,00,000. The respective PVs of the future CFAT and probabilities are as follows.

PV of future CFAT

With expansion	Without expansion	Probabilities
3,00,000	2,00,000	0.2
5,00,000	2,00,000	0.4
9,00,000	3,50,000	0.4

3. A firm’s after – tax cost of capital of the specific sources is as follows.

Particular	Percentage
Cost of debt	8
Cost of preference tax (including dividend tax)	14
Cost of equity funds	17

The following is the capital structure:

Source	Amount (Rs)
Debt	3,00,000
Preference Capital	2,00,000
Equity Capital	5,00,000

The market value of different sources of funds are as follows:

Sources	Market Value (Rs.)
Debt	2,70,000
Preference Shares	2,30,000
Equity and retained earnings	7,50,000
Total	12,50,000

Equity and Retained earning ration is 8:2

Calculate the weighted average cost of capital by using the book value method and market value method.

Q-3 Answer the following in detail. (Any Two)		**[20]**
1.	What are real options? Discuss its types in detail.	
2.	Discuss the approach to determine the cost of retained earnings. Also explain the rationale behind treating retained earnings as a fully subscribed issue of equity shares.	
3.	Write a short note on Risk – adjusted discount rate approach.	