

**B.E. / B.Tech. - DEGREE EXAMINATIONS, NOV / DEC 2024**

Sixth Semester

**Computer Science and Business Systems**

**20CBEL609 - ADVANCE FINANCE**

Regulations - 2020

Duration: 3 Hours

Max. Marks: 100

**PART - A (MCQ) (20 × 1 = 20 Marks)**

Answer ALL Questions

*Marks*    *K-  
Level*    *CO*

- |  |   |   |        |
|--|---|---|--------|
| 1. Debentures represent;   |   |   |        |
| (a) Fixed capital of the company   | (b) Permanent capital of the company        | 1 |        |
| (c) Fluctuating capital of the company   | (d) Loan capital of the company             |   |        |
| 2. Internal sources of capital are those that are ;  |   | 1 | K1 CO1 |
| (a) Generated through outsiders such as suppliers  |   |   |        |
| (b) Generated through loans from commercial banks  |   |   |        |
| (c) Generated through issue of shares  |   |   |        |
| (d) Generated within the business  |   |   |        |
| 3. Which is the source of mid-term finance?  |   | 1 | K1 CO1 |
| (a) Micro Credit   | (b) Specialized Financial Institution       |   |        |
| (c) Collect Advances from Purchasers   | (d) Discounting the Bills Receivable        |   |        |
| 4. What is the main characteristic of equity financing?  |   | 1 | K1 CO1 |
| (a) Must be repaid   | (b) Interest based                          |   |        |
| (c) Ownership stake  | (d) Government funded                       |   |        |
| 5. What is the process of determining which long-term or fixed assets to acquire in an effort to maximize shareholder value?                         |   | 1 | K1 CO2 |
| (a) Business finance   | (b) Capital budgeting                       |   |        |
| (c) Investments  | (d) Financial markets and institutions      |   |        |
| 6. A bond issue may be retired by:   |   | 1 | K1 CO2 |
| (a) calling the bonds if there is a call feature   |   |   |        |
| (b) converting the bonds (if convertible) into common stock  |   |   |        |
| (c) making a single-sum payment at final maturity  |   |   |        |
| (d) all of the above   |   |   |        |
| 7. Protective covenants are:   |   | 1 | K1 CO2 |
| (a) to protect employees   | (b) to protect the interests of the company |   |        |
| (c) to protect shareholders  | (d) to protect bondholders                  |   |        |
| 8. Which of the following bonds offer the investor the most protection?  |   | 1 | K1 CO2 |
| (a) First-mortgage bonds   | (b) Debentures                              |   |        |
| (c) Subordinated debentures  | (d) Income bonds                            |   |        |
| 9. The call-option value of a callable bond is likely to be high when  |   | 1 | K1 CO3 |
| (a) interest rates are volatile  |   |   |        |
| (b) interest rates are low and expected to remain low  |   |   |        |
| (c) interest rate are high and expected to remain high   |   |   |        |
| (d) markets are inefficient  |   |   |        |
| 10. Treasury stock is  |   | 1 | K1 CO3 |
| (a) bonds and preferred stock  | (b) bonds and common stock                  |   |        |
| (c) preferred stock and common stock   | (d) only common stock                       |   |        |
| 11. If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to; |   | 1 | K1 CO3 |
| (a) the coupon effect  | (b) interest rate risk                      |   |        |
| (c) a perpetuity   | (d) an indefinite maturity                  |   |        |

12. Interest rates and bond prices 1 K1 CO3  
 (a) move in the same direction  
 (b) move in opposite directions  
 (c) sometimes move in the same direction, sometimes in opposite directions  
 (d) have no relationship with each other (i.e., they are independent)
13. In the formula  $k_e = (D_1/P_0) + g$ , what does  $g$  represent? 1 K1 CO4  
 (a) the expected price appreciation yield from a common stock  
 (b) the expected dividend yield from a common stock  
 (c) the dividend yield from a preferred stock  
 (d) the interest payment from a bond.
14. Beta is the slope of 1 K1 CO4  
 (a) the security market line (b) the capital market line  
 (c) a characteristic line (d) the CAPM
15. A measure of "risk per unit of expected return." 1 K1 CO4  
 (a) standard deviation (b) coefficient of variation (c) correlation coefficient (d) beta
16. Marketable securities are primarily 1 K1 CO4  
 (a) short-term debt instruments (b) short-term equity securities  
 (c) long-term debt instruments (d) long-term equity securities
17. Time consumed in clearing a check through the banking system 1 K1 CO5  
 (a) Processing float (b) Deposit float (c) Collection float (d) Availability float
18. Commercial paper is essentially, 1 K1 CO5  
 (a) another term for a junk bond  
 (b) a short-term unsecured corporate IOU  
 (c) an intermediate-term corporate bond  
 (d) a certificate that may be exchanged for a share of common stock at a specified future date
19. Which of the following marketable securities is the obligation of a commercial bank? 1 K1 CO5  
 (a) Commercial paper (b) Negotiable certificate of deposit  
 (c) Repurchase agreement (d) T-bills
20. The movement of business data electronically in a structured, computer-readable format 1 K1 CO5  
 (a) EFT (b) ED (c) SWIFT (d) CHIPS

**PART - B (10 × 2 = 20 Marks)**

Answer ALL Questions

21. Recall the definition of financial management. 2 K1 CO1
22. List out the different principles of time value of money. 2 K1 CO1
23. What do you mean by book building method? 2 K1 CO2
24. Compare between cash dividend and retained earnings. 2 K2 CO2
25. Choose any two characteristics of a leasing contract. 2 K1 CO3
26. Relate the term Current assets and Current Liability. 2 K1 CO3
27. Summarize the need for working capital management. 2 K2 CO4
28. Explain the term merger and acquisition. 2 K2 CO4
29. Interpret the Working capital results from the give details: 2 K2 CO5  
 Cash Rs. 10000, Debtors Rs. 20000, Bills Receivable Rs. 5000, Stock Rs. 3000,  
 Creditors Rs. 15000, Bills payable Rs. 7000, and Bank Overdraft Rs. 5000.
30. Define cash management. 2 K1 CO5

**PART - C (6 × 10 = 60 Marks)**

Answer ALL Questions

31. a) The current market price of a debenture of X Ltd is Rs. 800 having a face value of Rs. 1000. The debentures will be redeemed after 5 years. The debenture carries an interest rate of 12% p.a. You are required to illustrate “yield to maturity” on the debenture. 10 K4 CO1

**OR**

- b) Categorize the various classifications of sources of finance. 10 K4 CO1

32. a) The cost of capital and rate of return on investment of Chennai Ltd are 10% and 18% Respectively. The company has 5 lakh equity shares of Rs 10 each and earnings per share are Rs 20. Compute the market price per share and value of the firm in the following situations. Use Walter Model under relevance theory approach and comment the results. (a) No Retention, (b) 40% Retention, (c) 80% Retention. 10 K4 CO2

**OR**

- b) The earnings per share of Nadal Ltd are Rs 15 and the rate of capitalization applicable to the company is 12%. The productivity earnings (r) is 12%. Compute the market value of the company’s share if the payout ratio is (a) 20%, (b) 50%, and (c) 70%. 10 K4 CO2

33. a) “Leasing versus buying with borrowed funds”- Compare and contrast. 10 K2 CO3

**OR**

- b) Explain the methods of interest calculations in hire purchase transactions. 10 K2 CO3

34. a) Moon Ltd is engaged in customer retailing. You are required to estimate its working capital requirements from the following data: 10 K4 CO4  
Projected Annual Sales - Rs 6,50,000 ;  
Percentage of Net profit to cost of sales – 25%  
Average credit allowed to debtors – 10 weeks  
Average credit allowed by creditors – 4 weeks  
Average Stock carrying (in terms of sales requirements) – 8 weeks  
Allow 20% Contingencies.

**OR**

- b) Distinguish between lease financing and hire purchase financing. 10 K4 CO4

35. a) From the following information calculate working capital requirements. 10 K4 CO5

Average amount locked up in stocks

Stocks of finished goods and WIP Rs 10,000

Stocks of stores, materials, etc Rs 8,000

Average Credit given

Local Sales – 2 Weeks credit Rs 1,04,000

Sales Outside the state : 6 Weeks credit Rs 3,12,000

(c) Time Available for payments

For purchase : 4 Weeks Rs 78,000

For Wages : 2 Weeks Rs 2,60,000

**OR**

- b) Discuss the methods for evaluating the leasing proposal. 10 K4 CO5

36. a) i) Examine Walter's relevance concept of dividend policy. 5 K4 CO4  
ii) Analyze Gordon's relevance concept of dividend policy. 5 K4 CO5
- OR**
- b) i) Examine the various reasons for happening Mergers and acquisitions in large scale industry. 5 K4 CO4  
ii) Analyze the various problems encountered during amalgamations process. 5 K4 CO5