

USN

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

10MBAFM321

Third Semester MBA Degree Examination, December 2012
Advanced Financial Management

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any FOUR questions, from Q.No.1 to Q.No.7.
2. Q.No. 8 is compulsory.

- 1 a. What are 5C's of credit management? (03 Marks)
 b. What is Factoring? Explain the types of factoring. (07 Marks)
 c. The following information is available for two companies, the Bore Limited and Cox limited.

Particulars	Box Ltd	Cox Ltd
Current Assets	Rs 150	Rs 50
Net fixed assets	Rs 50	Rs 150
Total assets	Rs 200	Rs 200
Earnings before interest and tax (EBIT)	Rs 30	Rs 30
ROI	15%	15%

Calculate the working capital leverage if there is a 20% reduction in current assets. (10 Marks)

- 2 a. What do you mean by Bank float? (03 Marks)
 b. Consider the data for Amit and Company.

Current Assets	Rs in Million
Inventories	70
Debtors	60
Cash	15
Total	145
Current Liabilities	
Trade creditors	40
Provisions	20
Total	60

What is maximum permissible bank finance (MPBF) for Amit & Company under the second method suggested by Tondon committee? Assume that core current assets (CCA) for Amit & Company are Rs 60 million. (07 Marks)

- c. H Ltd has at present annual sales level of Rs 10,000 units at Rs 300 per unit. The variable cost is Rs 200 per unit and fixed cost amount to Rs 3,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit period to 2 months and 3 months and has made the following estimates.

Particulars	Existing	Proposed	
Credit period (month)	1	2	3
Increase in sales (%)	-	15	30
Bad debts (%)	1	3	5

There will be increase in fixed cost by Rs 50,000 on account of increase in sales beyond 25% of present level. The company plans to pre-tax return of 20% on investment in receivables. You are required to calculate most paying credit policy for the company. (10 Marks)

- 3 a. What do you mean by Agency cost? (03 Marks)
 b. What do you understand by market value added (MVA) and economic value added (EVA)? (07 Marks)
 c. Enumerate in detail the symptoms of industrial sickness. (10 Marks)
- 4 a. What is the annual percentage interest cost associated with the following credit terms : Assume 360 days in a year. 1/10 net 30. (03 Marks)
 b. Explain the various short term sources of working capital with their features. (07 Marks)
 c. Two components A & B are used as follows :
 Normal usage : 50 units per week (each) ; Minimum usage : 25 units per week (each) ;
 Maximum usage : 75 units per week (each). Re – order quantity : A – 300 units, B – 500 units. Re – order period : A – 4 to 6 weeks , B – 2 to 4 weeks.
 Calculate the following for each component : (10 Marks)
 i) Re – order level ii) Minimum level iii) Maximum level iv) Average stock level.
- 5 a. What is ABC analysis? (03 Marks)
 b. What are the various factors that influence the payment of dividend? (07 Marks)
 c. The XYZ company belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs 100 each. The firm is contemplating the declaration of a Rs 6 dividend at the end of the current fiscal year, which has just began. Answer the following questions based on Modigliani and Miller model and the assumptions of no taxes : i) What will be the prices of the shares at the end of the year, if a dividend is not declared? What will it be, if it is declared? ii) Assume that the firm pays dividend, has a net income of Rs 10,00,000 and makes new investment of Rs 20,00,000 during the period, how many new shares must be issued? (10 Marks)
- 6 a. State any three assumptions of capital structure theories. (03 Marks)
 b. Royal Industries feels a lock – box system can shorten its accounts receivables collection period by 3 days. Credit sales are estimated at Rs 365 lakh per year, billed on a continuous basis. The firms opportunity cost of funds is 15%. The cost of lock box system is Rs 50,000.
 i) Will you advice Royal to go for lock box system?
 ii) Will your answer be different if accounts receivable collection period is reduced by 5 days? (07 Marks)
 c. Economic enterprises requires 90,000 units of certain items annually. The cost per unit is Rs 3, the cost per purchase order is Rs 300 and inventory carrying cost is Rs 6 per unit/year.
 i) What is EOQ?
 ii) What should the firm do, if the suppliers offers discount as mentioned below : (10 Marks)

Order Quantity	Discount
4,500 – 5,999	2 percent
6000 & above	3 percent

- 7 a. Outline the Walter model of Dividend relevance. (05 Marks)
 b. The following results are expected by XYZ Ltd by quarters next year, in thousand of rupees.

Particulars	Quarter			
	1	2	3	4
Sales	7,500	10,500	18,000	10,500
Cash Payments :				
Production costs	7,000	10,000	8,000	8,500
Selling & other costs	1,000	2,000	2,900	1,600
Purchase of Plant & other fixed asset	100	1,100	2,100	2,100

The debtor at the end of the quarter are one – third of sales for the quarter. The opening balance of debtor is Rs 30,00,000. Cash on hand at the beginning of the year is Rs 6,50,000 and the desired minimum balance is Rs 5,00,000. Borrowings are made at the beginning of the quarter in which need will occur in multiples of Rs 10,000 and are repaid at the end of quarter. Interest charge may be ignored. You are required to prepare.

- i) Cash budget by quarters for the year.
- ii) State the amount of loan outstanding at the end of the year. (15 Marks)

8 CASE STUDY : (Compulsory)

Following is the data regarding two companies X and Y belonging to the same risk class.

Particulars	Company	
	X	Y
Number of ordinary shares	90,000	1,50,000
Market price per share	Rs 1.20	Rs 1.00
6 % Debenture	60,000	-
Profit before interest	18,000	18,000

All profits after debentures are distributed as dividend.

Explain how under Modigliani and Miller approach an investor holding 10% of shares in company 'X' will be better off in switching his holdings to company 'Y'. (20 Marks)
