USN | | | | | | | | | | 12MBAFM321

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages. 2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

Third Semester MBA Degree Examination, Dec.2014/Jan.2015
Advanced Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any THREE questions from Q.No. 1 to Q.No. 6.***
2. ***Question No. 7 and 8 are compulsory.***

1 a. What is Float? **(03 Marks)**
b. What is Baumol's model? What are its assumptions? **(07 Marks)**
c. H Ltd has at present annual sales level of 10,000 units at ₹ 300 p.u. The variable cost is ₹ 200 p.u and fixed cost amount to ₹ 3,00,000 p.a. The present credit period allowed by the Co. is one month. The Company is considering a proposal to increase the credit period to 2 month and 3 months and has made the following estimates.

	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 ₹ 50,000 on account of increase in sales beyond 25% of present level. The company plans a pre – tax return of 20% on investment in receivables. You are required to calculate the most paying credit policy for the company. **(10 Marks)**

2 a. What is working capital leverage? **(03 Marks)**
b. What is the annual % interest cost associated with the following credit terms?
i) 2/20 net 50 ii) 2/15 net 40. Assume that the firm does not avail of the cash discount but pays on the last day of the net period. Assume 360 days in a year. **(07 Marks)**
c. Economic enterprise require 90000 units of certain items annually. The cost per unit is ₹ 3. The cost per purchase order is ₹ 300 and the inventory carrying cost is ₹ 6 p.u.
i) What is EOQ? ii) What should the firm do if the suppliers offer discounts as detailed below : **(10 Marks)**

Order Quantity	Discount
4500 - 5999	2%
6000 and above	3%

3 a. What is Concentric Merger? How is it different from conglomerate merger? **(03 Marks)**
b. What is Merger? What are the motives of merger? **(07 Marks)**
c. Consider the following information for Optima Ltd.
NOI ₹ 210 million : Corporate tax 30%
Market / Book value of debt ₹ 300 million.
Capitalisation rate applicable to a debt free firm in the risk class to which optima belongs is 16%. What will be the value of Optima Ltd according to MM approach? **(10 Marks)**

4 a. Distinguish between EVA and MVA. **(03 Marks)**
b. What is NI approach? What are its assumptions? **(07 Marks)**
c. How do you define a sick unit? What are the ways of reviving sick units? Elucidate. **(10 Marks)**

5 a. What is Break – even EBIT level? **(03 Marks)**
b. What is Numerical credit scoring? What are the steps involved in it? **(07 Marks)**
c. The following information is available for Avanti corporation :
EPS ₹ 4.00 ; Return on investment 18% ; Return required by shareholders 15%.
What will be the price per share as per the Waltors model if the payout ratio is 40%, 50% and 60%? **(10 Marks)**

6 a. What is Agency cost? **(03 Marks)**
b. What is Synergy? What are the types of Synergy arising from M & A? **(07 Marks)**
c. The following information is given for MCI Co. :
Assets to sales ratio 0.80 ; Spontaneous liabilities to sales ratio 0.50 ; **(10 Marks)**
Profit margin 5% ; Dividend payout ratio 0.6 ; Previous year's sales 1200 lakh.
What is the maximum sales growth rate that can be financed without raising external funds?

7 a. Calculate cash turnover for a business firm if on an average debtors are collected after 45 days. Inventories have an average holding period of 75 days and creditors payment period is 30 days. **(05 Marks)**
b. A business firm requires 90000 units of certain items annually. The cost of purchase is ₹ 300 per order and inventory carrying cost is ₹ 6 per unit p.a. What is EOQ? **(05 Marks)**
c. Given EBIT ₹ 4,00,000 , Debt capital ₹ 10,00,000 at 10% p.a. , Ke 15%. Determine current value of the firm using traditional valuation approach. **(05 Marks)**
d. Following are the data available for a company XYZ Ltd.
12% Pref share capital ₹ 1,00,000 ; Equity share capital ₹ 4,00,000 (F.V ₹ 100) ; Share premium ₹ 40,000 ; Retained earnings ₹ 3,00,000 ; Earnings available to equity holders ₹ 1,50,000.
i) What is the maximum DPS the firm can pay?
ii) If the firm has only ₹ 60,000 in cash, what is the maximum DPS it can pay? **(05 Marks)**

8 CASE STUDY :

Prepare a cash budget for the month of May , June & July 2004 on the basis of the following information :

	March	April	May	June	July	August
Credit sales	60,000	62,000	64,000	58,000	56,000	60,000
Credit purchases	36,000	38,000	33,000	35,000	39,000	34,000
Wages	9,000	8,000	10,000	8,500	9,500	8,000
Manf. Exp.	4,000	3,000	4,500	3,500	4,000	3,000
Office Exp.	2,000	1,500	2,500	2,000	1,000	1,500
Selling Exp.	4,000	5,000	4,500	3,500	4,500	4,500

a. Cash balance on 1/5/2004 ₹ 8,000.
b. Plant costing ₹ 16,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.
c. Advanced tax of ₹ 8,000 each is payable in March and June.
d. Period of credit allowed by suppliers – 2 month.
e. Period of credit allowed to customers – 1 month.
f. Lag in payment of Mfg. Exp – ½ month.
g. Lag in payment of office & selling Exp. 1 month. **(20 Marks)**

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