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14MBAFM304

Third Semester MBA Degree Examination, Dec.2016/Jan.2017
Advanced Financial Management

Time: 3 hrs.

Max. Marks:100

SECTION – A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 What are the 5C's of credit? (03 Marks)
- 2 What do you mean by working capital leverage? (03 Marks)
- 3 What is agency problem? (03 Marks)
- 4 What do you mean by optimum capital structure? (03 Marks)
- 5 How is inventory Re-order point determined? (03 Marks)
- 6 What do you mean by concentration banking and lock – Box system? (03 Marks)
- 7 What are the various cost associated with maintaining receivables? (03 Marks)

SECTION – B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 Explain the important factors affecting working capital. (07 Marks)
- 2 Solomon industries feels a lock-box system can shorten its accounts receivable collection period by 3 days. Credit sales are estimated at ₹365 lakh per year, billed on a continuous basis. The firm's opportunity cost of funds is 15 percent. The cost of lock box system is ₹50,000.
 - i) Will you advise 'Solomon' to go for lock-box system?
 - ii) Will your answer be different if account receivable collection period is reduced by 5 days? (07 Marks)
- 3 Discuss the features of Miller and Orr cash management model. (07 Marks)
- 4 The finance department of Pradeep textile corporation gathered the following information:
 - i) The carrying costs per unit of inventory are ₹10.
 - ii) The fixed costs per order are ₹20.
 - iii) The number of units required is 30,000 per year.
 - iv) The variable cost per unit ordered are ₹2.
 - v) The purchase cost price per unit is ₹30.Determine the EOQ, total number of orders in a year, and the time-gap between two orders. (07 Marks)

- 5 What are the assumptions and implications of the Gardon's model on dividend policy? (07 Marks)
- 6 Write note on:
 a. Homemade leverage.
 b. Arbitrage process and
 c. Reverse leverage. (07 Marks)
- 7 Discuss the strategies for managing the surplus fund. (07 Marks)

SECTION – C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 The following data is available on consumption pattern of certain materials in an organization:

Group	I	II	III	IV	V	VI	VII	VIII
Number of items	40	20	100	200	60	300	250	30
Monthly consumption (units)	300	270	1700	1500	340	2500	2000	170
Price of item	90	100	5	4	50	1	2	500

Find out A, B, C item when; A item account for 85%; B item account for 10%; C item account for 5% of consumption value. (10 Marks)

- 2 Apex corporation currently provides 45 days of credit to its customers. Its present sales are ₹80 million. The firm's cost of capital is 13% and the ratio of variable cost to sales is 0.75. Apex is considering extending its credit period to 60 days. Such an extension is likely to push sales up by ₹20 million. The bad debt proportion on additional sales would be 10%. The tax rate for apex is 35%. What will be the effect of lengthening the credit period on the residual income of apex? (10 Marks)
- 3 The following is the data regarding two companies 'x' and 'y' belonging to the same risk class:

Particulars	Firm x	Firm y
Number of ordinary Shares	90,000	
Market price per Share (₹)	1.20	1.00
6% debentures	60,000	Nil
Profit before interest	18,000	18,000

All profits after debentures interest are distributed as dividends. 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. (10 Marks)

- 4 AB Ltd needs ₹10 lakh (one million) for expansion. The expansion is expected to yield an annual EBIT of ₹160,000. In choosing a financial plan, AB Ltd has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of ₹100,000 or ₹400,000 or ₹600,000. The current market price per share is ₹25 and is expected to drop to ₹20 if the funds are borrowed in excess of ₹5,00,000. Funds can be borrowed at the rates indicated below: i) up to ₹100,000 at 8%; ii) Over ₹100,000 up to ₹500,000 @ 12%; iii) Over ₹500,000 at 18%. Assume a tax rate of 50%. Determine the EPS for the three financing alternatives. (10 Marks)

- 5 A plastic manufacturing company belongs to a risk-class for which the appropriate P/E ratio is 10. The currently has 50,000 outstanding shares selling at ₹100 each. The firm is contemplating the declaration of ₹8 dividend at the end of the current fiscal year which has just started. Given the assumption of MM, answer the following questions:
- What will the price of the shares be at the end of the year: (a) if dividend is not declared, and (b) if it is declared?
 - Assume that the firm pays the dividend, has a net income (y) of ₹5,00,000 and makes new investments of ₹10,00,000 during the period, how many new shares must be issued?
 - What will the value of the firm be: (a) if dividend is declared and (b) if dividend is not declared? **(10 Marks)**
- 6 What are the common elements and the benefits of financial planning? Describe briefly the types of sales forecasting techniques and methods? **(10 Marks)**
- 7 What are the plausible and Dubious reasons for paying dividends? What are the motives for declaring a bonus issue? **(10 Marks)**

SECTION – D
(Compulsory)

CASE STUDY

- 8 Prepare the cash budget for William Smith's company have requested you to prepare their cash budget for the period January 2015 through June 2015. The following information is available:
- The estimated sales for the period of January 2015 through June 2015 are as follows: 150,000 per month from January through March and 200,000 per month from April through June.
 - The sales for the months of November and December of 2014 have been 120,000 each.
 - The division of sales between cash and credit sales is as follows: 30% cash and 70% credit.
 - Credit collection pattern is 40 and 60% after one and 2 months respectively.
 - Bad debt losses are nil.
 - Other anticipated receipts are i) 70000 from the sale of a machine in April; ii) 3000 interest on securities in June.
 - The payments for purchases are made approximately a month after the purchase.
 - The purchases for the months of December, 2014 have been 60,000 for which payments will be made in January 2015.
 - Miscellaneous cash purchases of 3000 per month are planned, January through June.
 - Wages payments are expected to be 25,000 per month, January through June.
 - Manufacturing expenses are expected to be 32,000 per month, January through June.
 - General administrative and selling expenses are expected to be 15,000 per month.
 - Dividend payment of 30,000 and tax payment of 35,000 are scheduled in June 2015.
 - A machine worth 80,000 is planned to be purchased on cash in March 2015.
- The cash balance as on 1st January 2015 is 28,000. The minimum cash balance required by the firm is 30,000. Prepare a statement showing the surplus/deficit in relation to the minimum cash balance required. **(20 Marks)**

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