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**Third Semester MBA Degree Examination, Dec.2015/Jan.2016**  
**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 is factoring? (03 Marks)
- 2 Differentiate between ordering costs and carrying costs. (03 Marks)
- 3 What do you mean by delinquency cost? (03 Marks)
- 4 State any three assumptions of capital structure theories. (03 Marks)
- 5 What do you mean by External Financing Requirements (EFR)? (03 Marks)
- 6 What is lock-box system? (03 Marks)
- 7 Bring out the difference between bonus share and stock split. (03 Marks)

**SECTION - B***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Explain in brief strategies for managing surplus fund. (07 Marks)
- 2 What is credit analysis? Briefly explain internal and external sources of obtaining credit information. (07 Marks)
- 3 Explain in brief different kinds of dividend policies. (07 Marks)
- 4 Write short notes on:
  - i) Net income approach
  - ii) Net operating income approach
  - iii) Modigliani-Miller approach
 (07 Marks)
- 5 Following is the information relating to AB Ltd., PQ Ltd. and XY Ltd.

Particular	₹ in million		
	AB	PQ	XY
Current Assets (CA)	350	400	480
Net Fixed Assets (FA)	200	250	120
Total Assets (TA)	550	650	600
EBIT	800	900	1000

You are required to compute the working capital leverage (WCL).

- i) 30% decrease in the level of current assets of AB Ltd.
- ii) 20% decrease in the level of C.A. of PQ Ltd.
- iii) 10% increase in the level of C.A. of XY Ltd.

(07 Marks)

- 6 In a manufacturing concern the materials are used as follows:  
 Maximum consumption 12000 units per week.  
 Minimum consumption 4000 units per week.  
 Re-order quantity 48000 units.  
 Time required for delivery of raw material:  
 Minimum – 4 weeks  
 Maximum – 6 weeks  
 Maximum reorder period under the emergency condition is 2 weeks.  
 Compute: i) Re-order level; ii) Maximum level; iii) Minimum Level; iv) Danger level.  
 (07 Marks)
- 7 The annual cash requirement of A Ltd. is ₹10,00,000. The company has marketable securities in lot sizes of ₹50,000, ₹1,00,000, ₹2,00,000, ₹2,50,000 and ₹5,00,000. Cost of conversion of marketable securities per lot is ₹1000. The company can earn 5% yield on its securities. Show the economic lot size can be obtained by the Baumol model.  
 (07 Marks)

### SECTION - C

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

- 1 What do you mean by working capital? Briefly explain short-term financing of working capital.  
 (10 Marks)
- 2 What is agency problem and agency cost? Explain in brief different types of agency costs.  
 (10 Marks)
- 3 From the following information compute market price of equity shares of a company as per Walter's model.  
 Earnings of the company = ₹10,00,000  
 Dividend paid = ₹ 6,00,000  
 Number of shares outstanding = 100000.  
 Price earning ratio = 10  
 Rate of return on investment = 8%  
 Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend payout ratio in this case?  
 (10 Marks)
- 4 The purchase department of an organization has received an offer of quantity of discounts on its order of materials as under:

Price per Tonne	Tonnes
₹ 1400	Less than 500
₹ 1380	500 and less than 1000
₹ 1360	1000 and less than 2000
₹ 1340	2000 and less than 3000
₹ 1320	3000 and above

The annual requirement of the material is 5000 tonnes. The delivery cost per order is ₹1200 and the annual stock holding cost is estimated at 20% of the average inventory.

The purchase department wants you to consider the following purpose option and advise among them will be the most economical order quantity, presenting the information in a tabular form.

The purchase quantity options are 400 tones, 500 tonnes, 1000 tonnes, 2000 tonnes and 3000 tonnes.  
 (10 Marks)

5 A Ltd. has 100000 equity shares which are selling at ₹100 each. Capitalization rate is 15%. The firm is expecting ₹72,00,000 income for the current year and is planning to pay dividend amounting to ₹5,00,000. The company wants to invest in a new project which will cost ₹85,00,000. Show that under MM model, the payment of dividend does not affect the value of the firm. (10 Marks)

6 In order to increase the sales from the normal level of ₹2,40,000 per annum, the marketing manager submits a proposal for liberalizing the credit policy as under:

Proposed increase in credit period beyond the normal 30 days	15	30	45	60
Increase in normal sales	12000	18000	21000	24000

The normal credit period or existing period is 30 days. The contribution to profit volume ratio is 30%. The company expects a pre-tax return of 20% on investment. As a financial manager evaluate the above four alternatives with the existing one and advise the management. (Assume 360 days in a year). (10 Marks)

7 A company's current operating income is ₹4,00,000. The firm has ₹10,00,000 of 10% debt. Its cost of equity is 15%.

- Determine the total market value of the firm, using traditional approach.
- Calculate overall capitalization rate.
- The firm is considering increasing its debt by raising an additional ₹5,00,000 debt and using the proceeds to retire that amount equity. As a result there is increase in  $K_d$  and  $K_e$  to 12% and 18% respectively. Would you recommend the plan? (10 Marks)

### SECTION - D CASE STUDY – [ Compulsory ]

Prepare the cash budget for July-December from the following information:

i) The estimated sales, expenses etc. are as follows:

	June	July	Aug	Sept	Oct	Nov	Dec
Sales	35	40	40	50	50	60	65
Purchases	14	16	17	20	20	25	28
Wages & Salaries	12	14	14	18	18	20	22
Miscellaneous exp.	5	6	6	6	7	7	7
Interest received	2	-	-	2	-	-	2
Sale of shares	-	-	20	-	-	-	-

- 20% of the sales are on cash and the balance on credit.
- 1% of the credit sales are returned by the customers; 2% debts are uncollectible; 50% of the good accounts receivable are collected in the month of the sales and the rest during next month.
- The time-lag in payment of miscellaneous expenses and purchase of material is one month. Wages and salaries are paid fortnightly with a time-lag of 15 days.
- The company keeps a minimum cash balance of ₹ 5 lakhs. Cash in excess of 7 lakhs is invested in government securities in multiples of ₹ 1 lakh. Shortfalls in the minimum cash balance are made good by borrowings from the banks. Ignore interest paid. (20 Marks)

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