CBCS SCHEME

USN

18MBAFM304

Third Semester MBA Degree Examination, Jan./Feb. 2021
Advanced Financial Management

Time: 3 hrs. Max. Marks:100

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

1 a. What is ABC analysis? **(03 Marks)**
b. Explain the various short term sources of working capital with their features. **(07 Marks)**
c. Two components A and B are used as follows:
Normal usage: 50 units per week
Minimum usage: 25 units per week
Maximum usage: 75 units per week
Reorder Quantity A: 300 units, B: 500 units
Reorder period A: 4 to 6 weeks, B: 2 to 4 weeks.
Calculate for each component:
i) Reorder level
ii) Minimum level
iii) Maximum level. **(10 Marks)**

2 a. What are 5C's of credit management? **(03 Marks)**
b. List various factors that affect capital structure. Explain any three of them. **(07 Marks)**
c. Economic enterprise 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 offer discount as mentioned below:

Order Quantity	Discount
4,500 – 5,999	2%
6,000 and above	3%

(10 Marks)

3 a. Mention any three motives of holding cash. **(03 Marks)**
b. What are the various factors that influence the payment of dividend? **(07 Marks)**
c. An engineering company has a cost of equity capital of 15%. The expected EPS are Rs.30/-. It is estimated that the return on investment may be i) 20% ii) 10% iii) 15%. The company is contemplating a dividend payout of either 20% or 50% or 80%. Advice the company in each of the situation according to Walter's model. **(10 Marks)**

4 a. What do you mean by working capital leverage? (03 Marks)

b. What is NI approach? What are its assumptions? (07 Marks)

c. XYZ corporation is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the firm has annual credit sales of Rs.50 lakhs and account receivable turn over ratio of 4 times a year. The current level of loss due to bad debts is Rs.1,50,000. The firm is required to give a return of 25% on the investment in new accounts receivable. The company's variable costs a 70% of the selling price. Given the following information, which is better option.

Particulars	Present policy	Policy Opt-1	Policy Opt-2
Annual credit sales	Rs.50,00,000	Rs.60,00,000	Rs.67,50,000
A/C receivable turn over ratio	4 times	3 times	2.4 times
Bad debt loss	Rs.1,50,000	Rs.3,00,000	Rs.4,50,000

(10 Marks)

5 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. What is Baumol's model? What are its assumptions? (07 Marks)

c. Company x and y are in same risk class and identical in every respect except that company x uses debt, while company y does not. The levered firm has Rs.9,00,000 debentures carrying 10% rate of interest. Both firms earn 20% operating profit on their total assets of Rs.15 lakh. Assume perfect capital market, rational investor and so on. Tax rate is 35% and capitalization rate of 15% for equity financed firm.

i) Compute value of firm using NI

ii) Compute value of firm using NOI. (10 Marks)

6 a. What is zero working capital? (03 Marks)

b. The following data available for M/S RP Ltd.

Lower limit of cash balance = Rs.50,000

Annual yield on securities = 10%

Fixed transaction cost = Rs.400

Variance of change in daily cash balance = Rs.20,000.

Find out i) Return point (RP) ii) Upper control limit. Assume 360 days in a year. (07 Marks)

c. The following information is available in respect of the rate of return on investment (r), the capitalization rate (k_e) and EPS(E) of Hypothetical Ltd. r = 12%, E = Rs.20. Determine the value of its shares as per Gordon's model of dividend relevance theory, assuming the following:

Sl. No.	D/P ratio	Retention Ratio	Ke %
1	10	90	20
2	20	80	19
3	30	70	18
4	40	60	17
5	50	50	16
6	60	40	15
7	70	30	14

(10 Marks)

7 a. What is Ageing schedule? (03 Marks)

b. A construction company has equity capital of Rs.5,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.3,00,000 for expansion plans. The company plans the following four alterative plans:

i) Plan A: All common stock
ii) Plan B: Rs.1,00,000 in common stock and Rs.2,00,000 in debt at 10% p.a.
iii) Plan C: All debt at 10% p.a
iv) Plan D: Rs.1,00,000 in common stock and Rs.2,00,000 in preference capital with the rate of dividend at 8%

The company existing EBIT are Rs.1,50,000. The corporate tax is 30%. Determine the EPS in each plan and comment on the implications of financial leverage. (07 Marks)

c. The Malbar corporation currently provides 45 days of credit to its customers. Its present level of sales is Rs.15 lakh. The firm's cost of capital is 15% and the ratio of variable costs to sales is 0.80. The firm is considering extending its credit period to 60 days. Such an extension is likely to push sales up by Rs.1.5 lakh. The bad debt proportion on additional sales would be 5%. The tax rate is 45%.
What will be the effect of lengthening the credit period on the net profit of the firm? Whether new credit policy is acceptable or not. (10 Marks)

CASE STUDY

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

Particulars	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
Manufacturing Expenses	4,000	3,000	4,500	3,500	4,000	3,000
Office Expenses	2,000	1,500	2,500	2,000	1,000	1,500
Selling Expenses	4,000	5,000	4,500	3,500	4,500	4,500

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

* * * * *