USN

10MBAFM321

Third Semester MBA Degree Examination, June/July 2013

Advanced Finance Management

Time: 3 hrs. Max. Marks:100

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

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

b. Given below is information of M/S H Ltd Co and M/S P Ltd.

Balance Sheet as at 31.03.2012

Liabilities	H Ltd	P Ltd	Assets	H Ltd	P Ltd
Eq. capital	5,00,000	2,00,000	Fixed assets	4,35,500	1,87,000
12% loans	1,20,000	90,000	Current assets	3,50,000	1,90,000
10% loans	70,000	30,000			
Other dues	95,500	57,000			
Total	7,85,500	3,77,000	Total	7,85,500	3,77,000

The EBIT was at Rs.105000 and Rs.100000 respectively for M/S H Ltd an M/S P Ltd. You are required to determine working capital leverage (WCL) assuming 20% reduction in investment of current assets level by both the firms. Ignore tax effects. Comment on your results. **(07 Marks)**

c. M/S GE Electricals Ltd have estimated their working capital requirements for the next twelve months as below :

Months	Amt (Rs. in lakhs)	Months	Amt (Rs. in lakhs)
April	30	October	200
May	30	November	180
June	40	December	110
July	60	January	70
August	100	February	40
September	150	March	20

The cost of short term and long term financing is expected to be 4% and 10% respectively.
Calculate: i) The cost of financing using the hedging approach.
ii) The cost of financing using the conservative approach. **(10 Marks)**

2 a. Mention any three motives of holding cash. **(03 Marks)**

b. The following data is available for M/S RP Ltd.
Lower limit of cash balance = Rs.50,000
Annual yield on securities = 10%
Fixed transaction costs = Rs.400
Variance of change in daily cash balance = Rs.20000.
Find: i) Return point (RP), ii) Upper control limit (UCL).
(Assume 360 days in a year). **(07 Marks)**

c. What is a Sick Industry? Explain the usual components of a typical sick unit revival programme. **(10 Marks)**

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.

3 a. What is the annual cost associated with 2/15, act 45? **(03 Marks)**
b. What are the 5C's of traditional credit analysis? Explain each in brief. **(07 Marks)**
c. M/S SS Co. Ltd is a company having an annual sales on credit of Rs.30 lakhs. Currently it has an average collection period of 30 days. It is anticipated that liberalization of credit term can lead to higher sales. But bad debts cannot be ruled out. The expected increase in sales and incidence of bad debts at a given level of increase in collection period (in days) are as below:

Contemplated additional collection period (days)	Expected increase in sales (at in Rs.)	Incidence of bad debts (%)
15	2,00,000	1/2
30	3,00,000	1.0
45	3,50,000	1.5
60	3,75,000	2.0

The unit selling price is Rs.50 and unit variable cost is Rs.30. At current volume it has a unit total cost of Rs.35. What will be the most rewarding credit policy under these circumstances? Assume rate of interest of 20 percent for your calculations. **(10 Marks)**

4 a. What is carrying cost and ordering cost? Give two examples for each. **(03 Marks)**
b. A student has calculated EOQ for a set of data to be 400 units. If the ordering cost per order in the data was Rs.50 and carrying cost per unit per year is Re.1, what was the annual usage? Also calculate the total annual ordering costs. **(07 Marks)**
c. Discuss: i) Commercial papers
ii) Certificate of deposits as sources of working capital finance. **(10 Marks)**

5 a. Give any three critical assumptions of NOI approach to capital structure. **(03 Marks)**
b. List various factors that affects capital structure. Explain any three of them. **(07 Marks)**
c. A firm has EBIT of Rs.40,000. the firm has 10 percent debentures of Rs.100000 and its current equity capitalization rate is 16 percent. Find:
i) The market value of equity
ii) The market value of debt
iii) The total market value of firm
iv) The overall cost of capital **(10 Marks)**

6 a. What are the important events and dates in the dividend payment procedure? **(03 Marks)**
b. Write down the Gordon's dividend/valuation formula. What are the assumptions on which the model is based? **(07 Marks)**
c. The following information is available for M/S Kavita Musicals Ltd.
Earnings per share = Rs.4.00
Rate of return on investment = 18%
Rate of return expected by shareholders = 15%
What will be the price per share as per Walter's model if the payout ratio is 40%, 50% and 60%? **(10 Marks)**

7 a. What are the three broad approaches to value intangible assets? Explain them briefly. **(10 Marks)**
b. What are the characteristics or features of intangible assets or intangible asset intensive firms? What are their implications for financial management? **(10 Marks)**

8 ***Case Study:***

Based on the following information, prepare a cash budget for M/S GSS Ltd.

Particulars	1st Qtr (Rs.)	2nd Qtr (Rs.)	3rd Qtr (Rs.)	4th Qtr (Rs.)
Opening cash balance	10,000	-	-	-
Collection from customers	125000	150000	160000	221000
Payments:				
Purchase of materials	20000	35000	35000	54200
Other expenses	25000	20000	20000	17000
Salary and wages	90000	95000	95000	109200
Income tax	5000	-	-	-
Purchase of machinery	-	-	-	20000

The company desire to maintain a cash balance of Rs.15000 at the end of each quarter. Cash can be borrowed or repaid in multiples of Rs.500 at an interest of 10% per annum. Management does not want to borrow cash more than what is necessary and wants to repay as early as possible. In any event, loans cannot be extended beyond four quarters. Interest is computed and paid when the principal is repaid. Assume that borrowing take place at the beginning and repayments are made at the end of the quarters. **(20 Marks)**

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