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## Third Semester MBA Degree Examination, June/July 2016 **Advanced Financial Management**

Time: 3 hrs.

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Max. Marks: 100

Note: 1. Answer any THREE full questions from Q.No.1 to 6. 2. Q.No. 7 & 8 are compulsory.

What are the 5C's of credit management?

Consider the data for Amit & Co.

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Current Assets	Amount	Current Liabilities	Amount
Inventories	70	Trade creditors	40
Debtors	60	Provisions	20
Cash	15	O Comment	
Total	145	Total	60

What is Maximum Permissible Bank Finance (MPBF) for Amit & Co. under the second method suggest by the Tondon committee? Assume that core current Assets (CCA) for Amit & Co. are ₹ 60 million. (07 Marks)

Explain the different modes of Bank finance for the working capital.

(10 Marks)

2 What is the annual percentage interest cost associated with the following credit terms?

(ii) 2/15 net, 40. Assume 360 days in a year. (i) 1/10 net, 30

(03 Marks)

b. Two components A&B are used as follows:

Normal usage: 50 units per week (each)

Minimum usage: 25 units per week (each)

Maximum usage: 75 units per week (each) Re-order quantity: A-300 units B-500 units

Re-order period: A- 4 to 6 weeks B- 2 to 4 weeks.

Calculate the following for each component:

(i) Reorder level (ii) Maximum level (iii) Minimum level (iv) Average stock level.

(07 Marks)

- Economic enterprises requires 90,000 units of certain items annually. The cost per unit is ₹ 3, the cost per purchase order is ₹ 300 and inventory carrying cost is ₹ 6 per unit per year.
  - (i) What is EOQ?
  - (ii) What should the firm do if the suppliers offers discounts as below;

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

(10 Marks)

- 3 State any three assumptions of capital structure theory. (03 Marks)
  - What do you understand by market value added and economic value added. (07 Marks)
    - Enumerate in detail the symptoms of industrial sickness. (10 Marks)
- What is ABC analysis? (03 Marks) a.
  - What are the different types of factoring? Explain any three in detail. (07 Marks)

- c. Manish 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. Manish is considering extending it, credit period to 60 days. Such an extension is likely to push sales up by ₹20 million. The bad cost proption an additional sales will be 10%. The tax rate for Manish is 35%. What will be the effect of lengthening the credit period on the residual income of Manish?
- 5 a. What is working capital leverage?

(03 Marks)

b. What is merger? Briefly explain the different 'ypes of merger.

(07 Marks)

c. The following information is available for two companies, A ltd. and B ltd.

	i < in million				
Particulars	A Ltd.	B Ltd.			
Current Assets	150	<b>5</b> 0			
Net Fixed Assets	50	150			
Total Assets	200	200			
EBIT	30	30			
ROI	15%	15%			

Calculate working capital leverage if there is a 20% reduction/increase is current assets.

(10 Marks)

6 a. Write a note on postal float and lethargy float.

(03 Marks)

- b. Advani chemicals limited estimates its total cash requirements as ₹2 crore next year. The company's opportunity cost of fund is 15% The company will have to incur ₹11.3 per transaction, when it converts its short term securities to cash.
  - (i) Determine optimum cash balance (ii) How much is the total annual cost of the demand for the optimum cash balance? How many deposits will have to be made during the year?
- c. Company X and Y are in the same risk class and are identical in every respect except that company 'X' uses debt, while company 'Y' does not. The levered firm has 9,60,000 debentures carrying 10% rate of interest. Both the firm has assets of ₹ 15 lakhs. Assume perfect capital market, rational investors and so on; a tax rate of 35% and capitalization rate of 15% for an all equity company.
  - (i) Compute the value of firm X and Y using NI approach.
  - (ii) Compute value of each firm using NOI approach.
  - (iii) Using NOI approach, calculate overall cost of capital of both firm X and Y.
  - (iv) Which of the two firm has an optimum capital structure as per NOI approach. (10 Marks)
- a. If a company in India wishes to declare the dividend, what are the legal and procedural aspects has to be considered. (10 Marks)
- b. "There are two dangerous situations that manager should usually avoid in controlling inventories". Explain. (05 Marks)
- c. A company earns ₹ 10 per share at an internal rate 15%. The firm has a policy of paying 40% of earnings as dividends. If the required rate of returns is 10%, determine the price of the share under Walter model. (05 Marks)

- 8 Prepare a cash Budget for the period January to June, form the following information:
  - (i) The estimated sales and expenses are as follows:

Particulars	Amount								
	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	
Sales	2,00,000	2,20,000	1,20,000	1,00,000	1,50,000	2,40,000	2,00,000	2,00,000	
Wages and salaries	30,000	30,000	24,000	24,000	24,000	30,000	27,000	27,000	
Misc. Expenses	27,000	27,000	21,000	30,000	24,000	27,000	27,000	27,000	

- (ii) 20% of sales are on cash balance on credit.
- (iii) The firm has a gross margin of 25% on sales.
- (iv) 50% of credit sales are collected in the month after the sales, 30% in the second month after the sale and 20% in the third month.
- (v) Material for the sale of each month is one month in advance, on a credit for two months.
- (vi) Time lag in payment of miscellaneous expenses and 1/3 of salaries in one month.
- (vii) Debenture worth ₹ 40,000 sold in January.
- (viii)The firm maintains a minimum cash balance of ₹40,000. Funds can be borrowed @ 12% p.a. in the multiples of ₹ 1000, the interest being payable on monthly basis.
- (ix) Cash balance at the end of December-13 is ₹ 60,000.

(20 Marks)