

# CBCS SCHEME

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20MBAFM306

## Third Semester MBA Degree Examination, June/July 2023 Advanced Financial 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.  
3. Use of Interest factor Table is permitted.**

- 1 a. List out the strategies for managing surplus fund. (03 Marks)  
b. What is Stock dividend? How it is different from stock split? (07 Marks)  
c. A Company manufactures a product from a raw material, which is purchased @ Rs 60/kg. The Company incurs a handling cost of Rs 360 plus freight of Rs 390 per order. The incremental carrying cost of inventory of raw material is Re 0.50/kg per month. In addition, the cost of working capital finance on the investment of inventory of raw material is Rs 9/kg per annum. The annual production of the product is 1,00,000 kgs and 2.5 units are obtained from 1 kg of raw material.  
Required : i) Calculate the EoQ of raw material.  
ii) Advise, how frequently orders for procurement should be placed.  
iii) If the company – proposes to rationalize placement of orders on quarterly basis, what % of discount in the price of raw materials should be negotiated? (10 Marks)

- 2 a. What is Working Capital Leverage? How it is calculated? (03 Marks)  
b. A customer wants to purchase a goods of Rs 20,000 on 4 months audit from Vishal whole sale day fruit merchant and company. There is 90% probability that the customers will pay in 4 months and 10% probability that he will not pay anything. The firm's investment is 14,000. The required rate of return (or) cost of capital 18% should credit be granted. (07 Marks)  
c. The following is the data regarding two Company X & Y belonging to the same risk class.

Particulars	X	Y
No. of ordinary shares	90,000	1,50,000
Market price per share	1.20	1.00
6% debentures	60,000	-
Profit before interest	18,000	18,000

All profits after debentures interest are distributed as dividends.

Explain how under MM approach an investor holding 10% of shares in Company 'X' will be better off in switching his holdings to Company 'Y'. (10 Marks)

- 3 a. What is Float? What are its types? (03 Marks)  
b. A firm has a capital structure exclusively comprising of ordinary shares outstanding of Rs 20,00,000. The firm now wishes to raise additional of Rs 25,00,000. If the Company wishes to expand which of the following alternative Co. will choose if it is ready to take risk.  
i) Issue of 20,000 equity shares @ premium of Rs 25 per share.  
ii) Issue of 10% preference share.  
iii) Issue of 8% debentures.  
Assume tax rate as 50%, EBIT Rs 900,000 and face value of share Rs 100. (07 Marks)  
c. Discuss the determinants of working capital management. (10 Marks)

- 4 a. List out the assumptions of NI approach. (03 Marks)  
 b. Discuss the audit evaluation techniques. (07 Marks)  
 c. The following data are available on consumption pattern of certain materials in an organization :

Group	No. of item	Monthly consumption	Price item
I	40	3000	90
II	20	270	100
III	100	1700	5
IV	200	1500	4
V	60	340	50
VI	300	2500	1
VII	250	2000	2
VIII	30	170	500

Find out A, B and C items when.

'A' item accounts for 85% of consumption value.

'B' item accounts for 10% of consumption value.

'C' item accounts for 5% of consumption value.

(10 Marks)

- 5 a. What is EOQ? (03 Marks)  
 b. From the following data calculate the MPBF :

Current Assets	Amt	Current Liability	Amt
Stock	330	Creditors	120
Receivables	150	Other CL	30
Other current assets	20	Bank Borrowings	250
	500		400

Total core current assets are Rs 200 lakhs.

(07 Marks)

- c. A Company belongs to a risk class for which the approximate capitalization rate is 10%. It currently has outstanding 25000 shares selling @ Rs 100 each. The firm is contemplating the declaration of a dividend of Rs 5/ps @ the end of the current financial year. It expects to have a net income of Rs 2,50,000 and has a proposal for making new investment of Rs 5,00,000. Show under MM assumptions, the payment of dividend does not affect the value of the firm? (10 Marks)

- 6 a. What are the assumptions of Gordan's Model? (03 Marks)  
 b. Avinash Company expects its cash flows to behave in a random manner, as assumed by the Miller Orr Model. Avinash wants you to establish upper control limit and the return point. It provides the following information. The annual yield on marketable securities is 12%. The fixed cost of effecting a marketable securities transaction is Rs 1500. The standard deviation of the charges in daily cash Rs 6000. The management of Avinash would like to maintain a minimum cash balance of Rs 1,00,000. (07 Marks)  
 c. ABC Corporation is considering extending its audit period from 35 to 50 days. The corporation expected sales to increase from Rs 15 lakhs to Rs 20 lakhs and the average collection period increase is from 30 to 45 days. The bad debt loss ratio and collection cost ratio are expected to remain @ 5% and 8% respectively. The Corporation's contribution margin ratio is 20%. Calculate the increase in net profit, with the assumptions of 40% tax rate and 15% cost of capital. (10 Marks)

- 7 a. What is Factoring? (03 Marks)  
 b. Explain the different sources of working capital. (07 Marks)

- c. The following results are expected by ABC Ltd., by quarters next year (Rs '000').

Particulars	Q <sub>1</sub>	Q <sub>2</sub>	Q <sub>3</sub>	Q <sub>4</sub>
Sales	7500	10500	18000	10500
Cash payments production costs	7000	10000	8000	8500
Selling and admin. Costs	1000	2000	2900	1600
Purchase of Fixed assets	100	1100	2100	2100

The debtor @ the end of the quarter is 1/3 of sales for the quarter. The Opening balance debtors is Rs 3000. Cash on hand @ the beginning of the year is Rs 650 and the desired minimum balance is Rs 500. Borrowings are made @ the beginning of quarters in which the need will occur in multiples of Rs 10000 and are repaid @ the end of the quarters. Interest charges may be ignored. You are required to prepare

- A cash budget quarters for the year
- State the amount of loan outstanding @ the end of the year. (10 Marks)

### 8 CASE STUDY (Compulsory) :

Kiran automobiles operate in the auto spare industry. The income statement of the company is as follows :

Sales	Cost of sales	Net operating income	Interest	Earnings to E/SH
500	300	200	60	140

The capitalization rate for debt is 10% and capitalization rate for entire firm is 12.5%. Assume that the net operating income approach to capital structure is applicable.

- What is the market value of debt of the firm? What is the total market value of the firm?
- What is the market value of the equity of the firm? What is the equity capitalization rate?
- If other things remain the same then, what is the maximum amount of funds that the firm can borrow in terms of market value? So that its Ke rate does not exceed 16%.
- Do Kiran automobiles have optimal capital structure? (20 Marks)

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