CBCS SCHEME

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16/17MBAFM304

Third Semester MBA Degree Examination, June/July 2019
Advanced Financial Management

Time: 3 hrs. Max. Marks:80

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

1 a. What are the three basic approaches to determine an appropriate financing mix in working capital management? **(02 Marks)**

b. What are the determinants of dividend policy? Explain in detail. **(06 Marks)**

c. Company X and Y are in the same risk class and identical in every respect except that the company X uses debt, while company Y does not. The levered firm has Rs.900000 debentures carrying 10% of interest rate. Both firms earn 20% operating profit on their total assets of Rs.15 lakh. Assume perfect capital market, rational investors and so on, tax rate is 35% and capitalization rate of 15% of equity financed firm.

i) Compute value of firm under NI

ii) Compute value of firms using NOI. **(08 Marks)**

2 a. Mention any three motives for holding cash. **(02 Marks)**

b. Discuss the factors influencing working capital of an organization. **(06 Marks)**

c. Moon limited manufacturer of color TV sets, are considering liberalization of existing credit terms to three of their large customers. The credit period and likely quantity of TV sets that will be lifted by the customer as follows:

Credit Period (Day)	Quantity lifted		
	A	B	C
0	1000	1000	-
30	1000	1500	-
60	1000	2000	1000
90	1000	2500	1500

Selling price of the TV sets 9000. The expected contribution 20% on selling price. The cost of carrying debtors average 20% per annum. You are required to determine the credit period to be allowed to each customer (Assume 360 days in year). **(08 Marks)**

3 a. What is factoring? **(02 Marks)**

b. From the following information calculate working capital leverage for MNC and ABC companies:

Rs. in Million

Particular	MNC	ABC
Net Fixed Assets	60	200
Total Assests	200	250

Assume a 10% increase (or) decrease in level of current assets. **(06 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.

c. Ram enterprises manufactures a special product 'Red'. The following particulars were collected for the current year.
Monthly demand of Red, 1000 units
Cost of placing an order, Rs.100
Annual carrying cost per unit, Rs.15
Normal usage, 50 units per-week
Maximum usage, 75 units per week
Minimum usage, 25 units per week
Reorder period, 4 to 6 weeks.
Compute from the above,
i) Re-order Quantity ii) Re-order level iii) Minimum level iv) Maximum level
v) Average level. **(08 Marks)**

4 a. Bring out the difference between bonus share and stock split. **(02 Marks)**
b. List out factor affecting to capital structure of company and explain. **(06 Marks)**
c. The two companies X and Y belong to the same risk class. They have everything in common except that firm Y has 10% debenture of Rs.5 lakh. Valuation of two companies as follows:

Particular	Company X	Company Y
Net operating rate	7,50,000	7,50,000
Equity capital rate	12.5%	14%
Market value of equity	60,00,000	50,00,000
Market value of debt	-	500,000
Total market value	60,00,000	55,00,000

An investor owns 10% of equity shares of the overvalued firm. Will he gain by investing in the undervalued firm? Show the arbitrage process. **(08 Marks)**

5 a. List out tools to be used for inventory control. **(02 Marks)**
b. Briefly explain numerical credit scoring system. **(06 Marks)**
c. The present credit-term of progressive company is 1/10 net 30. Its sales are Rs.80 Million, average collection period is 20 days, its variable cost to sales ratio is 0.85 and its cost of capital 10%. The proportion of sales on which customer currency takes discount is 0.5. Company is considering relaxing its discount term to 2/10 net. Such relaxation is expected to increase sales by 5 million, reduce the ACP 14 days and increase the proportion of discount 0.8. Company tax rate is 40%. Analyze the credit decision. **(08 Marks)**

6 a. What is lock box system? **(02 Marks)**
b. The purchase department of an organization has received an offer of quantity discount on its order of materials as under:

Price per tonne	Tonnes
Rs.1400	Less than 500
Rs.1380	500 and less then 1000
Rs.1360	1000 and less than 2000
Rs.1340	2000 and less than 3000
Rs.1320	3000 and above

The annual requirement of materials is 5000 tonnes. The delivery cost per order is Rs.1200 and the annual stock holding cost is estimated at 20% of the average inventory.
The purchase quantity options to be considered are: 400 tonnes, 500, 1000, 2000 and 3000 tonnes. The purchase department want you to consider the above purchase option and advoice. **(06 Marks)**

c. The annual cash requirement of A Ltd is Rs.10 lakh. The company has marketable securities in lot sizes of Rs.50,000, Rs.100000, Rs.200000, Rs.250000 and Rs.500000. Cost of conversion of marketable securities per lot is Rs.1000. The company con earn 5% yield on its securities. You are required to prepared a table indicating which lot size will have to be sold by the company. Also show that economic lot size can be obtained by the Baumol modes. **(08 Marks)**

7 a. What are the components of inventory? **(02 Marks)**
b. Write short notes on:
i) Net income approach
ii) Net operating income approach
iii) Modigliani-Miller approach. **(06 Marks)**
c. Omega company has a cost of equity of 10%, the current market value of the firm is Rs.20,00,000 @ 20 per share. Assume values for new investment, earnings and dividend at the end of the year 6,80,000, 1,50,000 and D = 1Re per share. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. **(08 Marks)**

8 The following data pertain to a shop. The owner has made the following sale forecasts for the first 5 months of the coming year.

January	Rs.40,000
February	45,000
March	55,000
April	60,000
May	50,000

Other data are as follows:
a. Debtors and creditors balances at the beginning of the year are Rs.30,000 and Rs.14000, respectively. The balances of other relevant assets and liabilities are:

Cash balance	Rs.7500
Stock	51000
Accrued sales commission	3500

b. 40% sales are on cash. Credit sale one month lag.
c. Cost of sales 60% on sales
d. The only variable cost is a 5% commission on sales agents. The sales commission is paid in month after it is earned.
e. Inventory (stock) is kept equal to sales requirements for the next two months budgeted sales.
f. Trade creditors are paid in the following month after purchase.
g. Fixed costs are Rs.5000 per month; induding Rs.2000 depreciation.

You are required to prepare a cash budget for each of the first three months of coming year. **(16 Marks)**

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