CBCS SCHEME

USN | | | | | | | | | | |

16/17MBAFM304

Third Semester MBA Degree Examination, Aug./Sept.2020
Advanced Financial Management

Time: 3 hrs. Max. Marks:80

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

1 a. Mention the short term sources of working capital financing. **(02 Marks)**

b. A firm has a current capital structure of exclusively equity shares amounting to Rs.10,00,000. The firm wants to raise additional capital of Rs.10,00,000 for expansion. As a Finance Manager of the firm, which capital structure would you select out of the following alternatives:
(i) Raise 50% amount as equity and 50% as 5% debentures.
(ii) Raise the entire amount as 6% debentures.
(iii) Raise 50% amount as equity and 50% as 5% preference shares.
Assume an EBIT of Rs.1,20,000 with a tax rate of 30% and an outstanding of 10,000 shares with a market price of Rs.100 per share in all three alternatives. **(06 Marks)**

c. A trading company has current sales of Rs.7,00,000. It is considering to offer the credit terms of 2/15 net 30, instead of net 30 days, when the sales is expected to increase by 10%. The current average collection period of 30 days will reduce to 20 days. It is also expected that 60% of customers will take the offer to pay on 15^{th} day and remaining 40% will pay on 30^{th} day. The company's bad debts are nil, the variable cost is 70% and the tax rate is 40%. If the cost of capital is 12%, advise the company on extension of its credit policy. **(08 Marks)**

2 a. What is a cash budget? **(02 Marks)**

b. Briefly explain the common costs associated in extending credit. **(06 Marks)**

c. Shabhash corporation requires 1000 units of an item annually. The cost per unit is Rs.50, the fixed cost per order is Rs.100 and the inventory carrying cost is Rs.80 per unit per year. Their supplier has given them an offer as follows:

Minimum order quantity (units)	Percentage of discount on cost price
200	6%
500	8%
1000	12%

Which order quantity should the company choose? The Stores Manager of the company says that they should order as per EOQ, do you agree with him? **(08 Marks)**

3 a. What is credit evaluation? Mention any two methods. **(02 Marks)**

b. Jai Jawan & Co. has been buying an item in lots of 1200 units, which is six months requirement. If the cost per unit is Rs.15, ordering cost is Rs.9 per order and carrying cost is $1/5^{th}$ of the unit cost, calculate the savings in rupees, if they start buying as per EOQ. **(06 Marks)**

c. A company is planning its capital structure and the following estimates of post tax cost of debt and equity are provided at different levels of debt-equity mix.

Debt as % of total capital	Cost of debt (%)	Cost of equity (%)
0	0	12.0
20	5.0	12.5
30	5.0	13.0
40	6.0	15.0
50	6.5	16.0
60	7.0	18.0
70	7.5	20.0

Determine and suggest the optimal capital structure. **(08 Marks)**

4 a. Briefly explain the concept of EOQ. **(02 Marks)**

b. Discuss the Walter's model of dividend theory. **(06 Marks)**

c. If the rate of capitalization for a company is 10% and its EPS is Rs.12, then compute the price of the company's quoted share as per Walter's model, when the dividend payout ratio are at 50%, 75% and 100% assuming that the company can gain a return of 16%, 12% and 8% on its earnings. **(08 Marks)**

5 a. What is the objective of EBIT-EPS analysis? **(02 Marks)**

b. Distinguish between the capital structure theories of NI approach and NOI approach with suitable diagrams. **(06 Marks)**

c. Explain the different determinants of working capital. **(08 Marks)**

6 a. What do you understand by EVA? **(02 Marks)**

b. Discuss the three approaches for financing working Capital Management. **(06 Marks)**

c. Atlas & Co. holds Rs.30 lakhs worth marketable securities and wants to convert them into cash in the next three months cash planning period. Every conversion has a transaction cost of Rs.3000. the company is planning to convert the marketable securities into cash in any of the four lot sizes of Rs.100000, Rs.3,00,000, Rs.6,00,000 and Rs.10,00,000. Using Baumol's model, prepare a table to find the economic lot size for conversion assuming the annual yield on the securities is 20%. **(08 Marks)**

7 a. If the EOQ of a certain item is 5000 units and its ordering cost and carrying cost per unit per year are Rs.1000 and Rs.5 respectively, find the annual requirement of the item. **(02 Marks)**

b. A company is planning to introduce ABC analysis method of inventory control to improve its efficiency. The following data is provided to you. Arrange the items as per ABC classification and advise the company accordingly:

Item name	Monthly (units) consumption	Price per item (Rs.)
K	50	35
L	3	200
M	330	5
N	165	12
O	35	100
P	500	75
Q	265	48
R	135	10
S	1375	3
T	60	40

(06 Marks)

c. Two firms UC and LC have equivalent risk exposure and identical in all respects except that UC is unlevered, where as LC has 10% debentures of Rs.30 lakhs. The EBIT of both firms is Rs.900000 and equity capitalization rate is 15%. If an investor owns 10% equity share in LC, estimate how much investment can be save by using the arbitrage process as per MM theory. **(08 Marks)**

8 Compulsory Question:
Following are the details available for Panorama Industries Ltd.

Actual Sales (Rs.)		Estimated Sales (Rs.)	
Month	Sales	Month	Sales
Jan	75,000	May	105,000
Feb	80,000	June	120,000
Mar	90,000	July	150,000
Apr	100,000	Aug	160,000

Additional Information:

(i) Cash sales are 50% of total sales, the remaining 50% credit sales will be collected equally during the following two months.

(ii) Cost of goods manufactured is 70% of total sales, 90% of this cost is paid during the month after incurrence and the balance is paid with the following month.

(iii) Sales and administration expenses are Rs.15,000 per month in addition to 10% of total sales, all of which are paid during the month of incurrence.

(iv) Half yearly interest of 6% on Rs.450,000 debentures is paid in July.

(v) The company has signed a contract to purchase an equipment in June worth Rs.120,000, half of which is to be paid in cash.

(vi) A dividend of Rs.15,000 and an equal amount of income tax is due in July.

(vii) The company has a policy to maintain a minimum balance of Rs.30,000 at the end of every month, and accordingly on 30th April, the actual cash balance was Rs.30,000.

The management wants to know whether any O/D arrangement is to be planned for the three month cash budget ending on 31st July. Advice the management in the future course of action. **(16 Marks)**

* * * * *