CBCS SCHEME

USN

22MBAFM305

Third Semester MBA Degree Examination, Dec.2023/Jan.2024
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. M : Marks , L: Bloom's level , C: Course outcomes.

			M	L	C
Q.1	a.	What are 5 C's of Credit Management?	03	L1	CO1
	b.	Explain briefly the strategies available to a firm for Managing Surplus cash.	07	L2	CO1
	c.	ABC Ltd. has 8,00,000 equity shares outstanding @ the beginning of the year and current market price per share is Rs.120. Board of Directors of the company is contemplating Rs.6.4 per share as dividend rate of capitalization is 9.6%. i) Based on MM approach, calculate the market price of the share, when dividend is declared and not declared. ii) How many new shares are to be issued by the company if the company if the company wants the investment of Rs.3.20 crores assuming income will be Rs.1.66 crores?	10	L4	CO1
Q.2	a.	Recall the meaning of Crypto Currency.	03	L1	CO2
	b.	In a manufacturing concern the materials are used as follows: Maximum consumption = 12000 units/week , Minimum Consumption = 4000 units/week, Re-order quantity = 48000 units. Time required for delivery of raw materials, Minimum = 4 weeks, Maximum = 6 weeks. Maximum re-order period under emergency condition is 2 weeks. Compute (i) Re-order level (ii) Maximum level (iii) Minimum level (iv) Average level (v) Danger level.	07	L3	CO2
	c.	The present term of Multimedia company are 2/15 net 45. Its sales are 20,00,00,000. Its average collection period is 30 days, V.C is 80%, cost of capital is 12%, proportion of discount allowed 0.5. Company considering relaxing its discount term 3/15 net 45. It increase the sales by 1,00,00,000 reduced ACP to 27 days and increase the proportion of discount 0.6 and tax rate is 40%. Analyse the credit term.	10	L3	CO2
Q.3	a.	State any three assumptions of capital structure theories.	03	L1	CO3
	b.	What is factoring? Explain the types of factoring.	07	L2	CO3
	c.	The following information is available for two companies, the Box Ltd and Cox Ltd. (see table below) Calculate the WCL, if there is 20% reduction in current assets and 20% increase in current assets.	10	L4	CO3

Particulars	Box Ltd.	Cox Ltd.
Current Assets	Rs. 150	Rs. 50
Net Fixed Assets	Rs. 50	Rs. 150
Total Assets	Rs. 200	Rs. 200
EBIT	Rs. 30	Rs. 30
ROI	15%	15%

<table>
<tr><td>Q.4</td><td>a.</td><td>What is ABC analysis?</td><td>03</td><td>L4</td><td>CO3</td></tr>
<tr><td></td><td>b.</td><td>Compute the market price of equity shares of a company as per Walter's model.
Earnings of the company = Rs. 10,00,000 ; Dividend paid = Rs. 6,00,000
No. of shares outstanding = 1,00,000 ; P/E Ratio = 10%,
Rate of return on investment = 8%. Are you satisfied with the current dividend policy of the firm? If not, what should be optimal dividend payout ratio in this case?</td><td>07</td><td>L1</td><td>CO4</td></tr>
<tr><td></td><td>c.</td><td>Explain the model of Economic Value Added (EVA). What are the merits? How can EVA be improved?</td><td>10</td><td>L3</td><td>CO5</td></tr>
<tr><td>Q.5</td><td>a.</td><td>What is annual percentage interest cost associated with the following credit terms : Assume 360 days in a year 1/10 net 30.</td><td>03</td><td>L1</td><td>CO3</td></tr>
<tr><td></td><td>b.</td><td>Outline the Walter's model of dividend relevance.</td><td>07</td><td>L2</td><td>CO4</td></tr>
<tr><td></td><td>c.</td><td>Economic enterprise require 90,000 units of items annually, cost per unit is Rs. 3, cost per order is Rs. 300, Inventory carrying cost is Rs. 6 per unit.
i) What is EOQ ?
ii) What should be the firm do if the supplier offer a discount as detailed below?<table><tr><th>Order Quantity</th><th>Discount</th></tr><tr><td>4500 - 5999</td><td>2%</td></tr><tr><td>6000 - above</td><td>3%</td></tr></table></td><td>10</td><td>L3</td><td>CO4</td></tr>
<tr><td>Q.6</td><td>a.</td><td>Choose a bonus issue with a stock split.</td><td>03</td><td>L1</td><td>CO3</td></tr>
<tr><td></td><td>b.</td><td>Zenith corporation currently provides 30 days credit on its X customers. Its present level of sales is 5,00,00,000. The firm cost of capital is 10%, variable cost ratio is 85%. Company is considering to extend its credit period to 60 days. Such an extension push up sales by 5 million, bad debts proportion of additional sales is 8%. Corporate tax is 40%. Find out the effect of credit policy.</td><td>07</td><td>L4</td><td>CO4</td></tr>
<tr><td></td><td>c.</td><td>Annual cash requirement of Alta Ltd is Rs. 10,00,000. Company has marketable securities in lot sizes of Rs. 50,000 ; Rs.1,00,000 and Rs. 5,00,000. Cost of conversion of marketable security per lot is Rs. 1000. Company can earn 5% yield on securities. You are required to prepare a table showing lot size which have to be served by the company and also show that economic lot size can be obtained by using Baumol model.</td><td>10</td><td>L4</td><td>CO4</td></tr>
<tr><td>Q.7</td><td>a.</td><td>What is ordinary cost in inventories?</td><td>03</td><td>L1</td><td>CO5</td></tr>
<tr><td></td><td>b.</td><td>Classify the various short term sources of financing working capital.</td><td>07</td><td>L3</td><td>CO4</td></tr>
<tr><td></td><td>c.</td><td>Distinguish between NI and NOI approach.</td><td>10</td><td>L4</td><td>CO4</td></tr>
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Q.8	Case Study (Compulsory) :	20	L4	CO5

Prepare the cash budget for July to December from the following information.

Rs. in Lakhs

Particulars	June	July	Aug	Sept	Oct	Nov	Dec
Sales	35	40	40	50	50	60	65
Purchases	14	16	17	20	20	25	28
Wages and Salary	12	14	14	18	18	20	22
Miscellaneous Expenses	5	6	6	6	7	7	7
Interest Received	2	-	-	2	-	-	2
Sale of Shares	-	-	20	-	-	-	-

Additional Information :

i) 20% of sales are on cash and balance on credit.

ii) 1% of the credit sales are returned by the customer.
2% debts are uncollectable, 50% of goods receivable are collected in the month of sales and rest during the next month.

iii) The time lag in payment of miscellaneous expenses and purchase of material is 1 month, wages and salaries are paid fortnightly.

iv) The company keeps a minimum cash balance of 5 lakhs. Cash in excess of 7 lakhs is invested in government securities in multiples of 1,00,000.

v) Shortfall in the minimum cash balance are made borrowings from the banks. Ignore the interest paid.

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