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14MBAFM304

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

Time: 3 hrs. Max. Marks:100

SECTION - A

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 What is zero working capital? **(03 Marks)**

2 What are the motives of holding each? **(03 Marks)**

3 What is credit terms? **(03 Marks)**

4 What is reorder point? **(03 Marks)**

5 What do you mean by arbitrage? **(03 Marks)**

6 What is lock box system? **(03 Marks)**

7 What is dividend payout ratio? **(03 Marks)**

SECTION - B

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Briefly explain the techniques in cash management. **(07 Marks)**

2 From the following information, calculate working capital leverage.

(in million)

Particulars	X Co. Ltd.	Y Co. Ltd.
Current assets	₹150	₹50
Net Fixed assets	₹50	₹150
Total Assets	₹200	₹200
EBIT	₹30	₹30
ROI	15%	15%

(07 Marks)

3 Briefly explain numerical credit scoring system. **(07 Marks)**

4 Calculate reorder level, minimum level and maximum level for the following:
Number of units to be purchased in a year = 5000
Cost of placing a purchase order = ₹20
Purchase price/unit = ₹50
Annual cost of storage per unit = ₹5
Lead time: average = 10 days, maximum = 15 days, minimum = 6 days,
emergency purchases = 4 days
Consumption: average = 15 units per day, maximum = 20 units per day. **(07 Marks)**

5 A construction company has equity capital of ₹500000 divided into shares of ₹100 each. It wishes to raise further ₹300000 for expansion plans. The company plans the following four alternative plans.
 i) Plan A : All common stock.
 ii) Plan B: ₹100000 in common stock and ₹200000 in debt at 10% p.a.
 iii) Plan C: All debt at 10% p.a.
 iv) Plan D: ₹100000 in common stock ₹200000 in preference capital with the rate of dividend at 8%.

The company existing EBIT are ₹150000. The corporate tax is 30%. Determine the EPS in each plan and comment on the implications of financial leverage. **(07 Marks)**

6 Write a note of Gorden model of dividend. **(07 Marks)**

7 Write a note on Agency problem. **(07 Marks)**

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

1 Discuss the factors influencing working capital of an organization. **(10 Marks)**

2 The annual cash requirement of company XYZ Ltd. is ₹10 lakhs. The company has marketable securities in lot sizes of ₹50000, ₹100000, ₹200000, ₹250000 and ₹500000. Cost of conversion of marketable securities per lot is ₹1000. The company earns 5% yield on its securities. Prepare 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 model. **(10 Marks)**

3 A firm is contemplating an increase in the credit period from 30 to 60 days. The average collection period which is at present 45 days is expected to increase to 75 days. It is also likely that the bad debt expenses will increase from current level of 1% to 3% of sales. Total credit sales are expected to increase form the level of 30000 units to 34500 units. The present average cost per unit is ₹8, the variable cost and sales per unit is ₹6 and ₹10 per unit respectively. Assume the firm expects a rate of return of 15%. Should the firm extend the credit period? **(10 Marks)**

4 ABC company uses about 75000 valves per year and the usage is fairly constant at 6250 per month. The valve costs ₹1.50 per unit when bought in quantities and the carrying cost is estimated to be 20 percent of average investment on an annual basis. The cost to place an order and process the delivery is ₹18. It takes 45 days to receive delivery from the date of an order and a safety stock of 3250 valves desired. You are required to determine: i) The most economical order quantity and frequency of orders, (ii) order point, (iii) the most economical order quantity if the valve cost ₹4.50 per unit instead of ₹1.50 each. **(10 Marks)**

5 Following is the data regarding X and Y belonging to same risk class:

Particulars	Company X	Company Y
Number of ordinary shares	90000	150000
Market price/share	₹1.20	₹1.00
6% Debentures	60000	-
Profit before interest	18000	18000

Explain how M & M approach an investor holding 10% of shares in company X will be better off in switching his holdings to company Y. **(10 Marks)**

6 New Corporation belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 100000 shares selling at ₹100 each. The firm is contemplating the declaration of a ₹6 dividend at the end of the current final year. Using M and M model, answer the following:

i) What will be the price of shares at the end of the year if dividend is not declared and if it is declared?

ii) Assume firm pays dividend, has a net income of ₹10,00,000 and makes new investment of ₹20,00,000 during the period, how many new shares must be issued? **(10 Marks)**

7 Company X and Company Y are same risk class, and are identical in every respect except that company X uses debt, while company Y does not. The levered firm has ₹900000 debentures carrying 10% rate of interest. Both the firm assets of ₹15 lakhs, operating profit at 20%. Assume perfect capital market rational investors and so on; a tax rate of 35% and capitalization rate of 15% for an all equity company.

Compute the value of X and Y using the NI approach. **(10 Marks)**

SECTION - D
CASE STUDY – [Compulsory]

Prepare cash budget for the period of January to June from following information:

i) The estimated sales and expenses are as follows:

Particulars	Nov 08	Dec 08	Jan 09	Feb 09	March 09	April 09	May 09	June 09
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
Salaries	30,000	30,000	24,000	24,000	24,000	30,000	27,000	27,000
Other exp.	27,000	27,000	21,000	30,000	24,000	27,000	27,000	27,000

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

iii) The firm has a gross margin of 25% on sales.

iv) 50% of the credit sales are collected in the following month after the sales, 30% in the second month and 20% in the third month.

v) Material for the sales of each month, is one month in advance, on a credit for two months.

vi) The time lag for the payment of salaries is one-third of a month and that for other expenses, one month.

vii) Debentures worth ₹40000 were sold in January.

viii) The firm maintains a minimum cash balance of ₹40000. Funds can be borrowed at 12% per annum in the multiples of ₹1000, the interest being payable on monthly basis.

ix) Cash balance at the end of December is ₹60000. **(20 Marks)**

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