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**18MBAFM304**

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

Time: 3 hrs.

Max. Marks:100

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

**2. Q.No. 8 is compulsory.**

- 1 a. What are the motives of holding cash? (03 Marks)  
 b. What are the sources of Financing working capital? (07 Marks)  
 c. Discuss the strategies for managing the surplus fund. (10 Marks)
- 2 a. What are the 5C's of credit? (03 Marks)  
 b. The following information is available in respect of a trading firm:  
     i) On an average, debtors are collected after 45 days, inventories have an average holding period of 75 days and creditors payment period on an average is 30 days.  
     ii) The firm spends a total of Rs.120 lakh annually at a constant rate.  
     iii) It can earn 10% on investments.  
 From the above information, compute:  
     i) The cash cycle and cash turnover  
     ii) Minimum amounts of cash to be maintained to meet payments as they become due.  
     iii) Savings by reducing the average inventory holding period by 30 days. (07 Marks)
- c. In order to increase the sale from the normal level of Rs.2.4 lakh per annum, the marketing manager submits a proposal for liberalizing the credit policy as under.

Proposed increase in credit period beyond the normal 30 days	15	30	45	60
Increase in normal sales (Rs.)	12,000	18,000	21,000	24,000

The normal credit period is 30 days. The contribution to volume or profit volume ratio is 33.33%. The company expects a pre-tax return of 20% on investments. Evaluate the above four alternatives and investments. Evaluate the above four alternatives and advise the management. (Assume 360 days in year). (10 Marks)

- 3 a. What are the various cost associated with maintaining receivables? (03 Marks)  
 b. A company manufactures a product from a raw material, which is purchased at Rs.60 per kg. The company incurs a handling cost of Rs.360 plus freight of Rs.390 per order. The incremental carrying of raw material is Rs.0.50 per kg per month. In addition, the cost of working capital finance on the investment in inventory of raw material is Rs.9 per kg per annum. The annual production of the product is 1,00,000 units and 2.5 Units are obtained from one kg of raw material. Required:  
 Calculate the EOQ of raw materials advise, how frequently should order for procurement be placed. If the company proposes to rationalize placement of orders on Quarterly basis, what % of discount in the price of raw materials should be negotiated? (07 Marks)
- c. Beta, Ltd, provides the following information about its liquidity. It wants you to establish the 'return point' and the 'upper control limit'. Annual yield on marketable securities is 12%. The fixed cost of effecting a marketable securities transaction is Rs.1,600. The standard deviation of the change in daily cash balance is Rs.5,000. The management wants to maintain a minimum cash balance of Rs.50,000. Also, explain the working of this with a graph. (10 Marks)
- 4 a. State any assumptions of capital structure theories. (03 Marks)  
 b. What is credit analysis? Briefly, explain internal and external sources of obtaining credit information. (07 Marks)



- c. The earning's per share of a company is Rs.8 and the rate of capitalization applicable is 10%. The company has before it, an option of adopting i) 50% ii) 75% and iii) 100% dividend payout ratio. Compute the market price of the company's Quoted share as per Walter's model, if it can earn a return of a) 15% b) 10% and c) 5% on its retained earnings. (10 Marks)
- 5 a. What do you mean by delinquency cost? (03 Marks)  
b. Describe the various methods of pricing raw materials. (07 Marks)  
c. A company's Expected Annual Net Operating Income (EBIT) is Rs.50,000. The company has Rs.2,00,000 10% debentures. The equity capitalization rate ( $k_e$ ) of the company is 12.5%. Calculate the total market value of firm and WACC. (10 Marks)
- 6 a. Vaibhav Patil has a target ROE of 20% the debt-equity ratio of the firm is 1.2 and its pretax cost of debt is 12%. What ROI should the company plan to earn, if its tax rate is 30%. (03 Marks)  
b. Following are the data pertaining to falcon ltd. Calculate the EPS and break even EBIT from it. Existing capital structure: 1 million equity shares of Rs.10 each. Tax rate @ 50%. Falcon ltd., plans to raise additional capital of Rs.10 million for financing an expansion project. In this context, it is evaluating two alternative financing plans.  
i) Issue of equity shares (1 million equity shares of Rs.10 per share)  
ii) Issue of debentures carrying 14% interest. (07 Marks)  
c. Explain NI and NOI approaches applicable to capital structure. (10 Marks)
- 7 a. Explain operating cycle and cash cycle. (03 Marks)  
b. What is the annual percentage interest cost associated with the following credit terms:  
i) 2/20 net 50 ii) 2/15 net 40 iii) 1/15 net 30 (07 Marks)  
c. The XYZ company belongs to a risk class of which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling at Rs.100 each. The firm is contemplating the declaration of a Rs.6 dividend at the end of the current fiscal year, which has just began.  
i) What will be the prices of the shares at the end of the year, if a dividend is not declared? What will be, if it is declared?  
ii) Assume that the firm pays dividend, has a net income of Rs.10,00,000 and makes new investment of Rs.20,00,000 during the period, how many new shares must be issued? (10 Marks)

### CASE STUDY

- 8 From the following particular, prepare a monthly cash budget for the Quarter ended 31<sup>st</sup> March, 2019

Month	Amount in lakhs			
	Sales	Purchases	Wages	Expenses
Nov, 2018	5.0	1.0	2.0	0.40
Dec, 2018	6.0	2.0	2.0	0.40
Jan, 2019	4.0	3.0	2.20	0.50
Feb, 2019	5.0	2.0	2.20	0.50
Mar, 2019	6.0	1.0	2.40	0.50

Additional information:

- 10% sales and purchases are on cash.
- Credit to debtors: one month on an average, 50% of debtors will make payment on the due date while the rest will make payment one month there after.
- Credit from creditors: 2 months.
- Wages to be paid twice in a month-on the 1<sup>st</sup> and 16<sup>th</sup> respectively.
- Expenses are generally paid within the month.
- Plant costing Rs.1,00,000 will be installed in February, 2019 on payment of 25% of the cost in addition to the installation cost of Rs.5000/-, balance to be paid in three equal installments from the following month:
- Opening balance of cash Rs.2,00,000. (20 Marks)

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