CBCS SCHEME

USN

18MBAFM304

Third Semester MBA Degree Examination, July/August 2021
Advanced Financial Management

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

1 a. State the motives of holding cash. **(03 Marks)**

b. Explain the various sources of financing working capital. **(07 Marks)**

c. Vibgyor limited is considering relaxing its collection efforts. Its sales are Rs.100 million. Its ACP is 30 days, its variable cost to sales ratio is 0.75, its cost of capital is 14% and its bad debt ratio is 0.04. Vibgyor tax rate is 30%. The relaxation is collection effort is expected to push sales by Rs.10 Million, increase in the Average Collection Period (ACP) to 40 days and raises bad debt ratio to 0.05. What will be the effect of relaxing the collection effort on the residual income? **(10 Marks)**

2 a. What are the 5 C's of credit management? **(03 Marks)**

b. Two component X and Y are used as follows:
Normal usage: 50 units per week each
Minimum usage : 25 units per week each
Maximum usage : 75 units per week each
Reorder quantity : X - 300 units Y - 500 units
Reorder period: X - 4 to 6 weeks Y - 2 to 4 weeks
Calculate for each component: (i) Reorder level (ii) Maximum level (iii) Minimum level (iv) Average level **(07 Marks)**

c. Explain the two danger situation while investing on inventory. **(10 Marks)**

3 a. Explain working capital leverage. **(03 Marks)**

b. ABC limited estimates its total cash requirement as Rs.2 crore next year. The company's opportunity cost of fund is 15% per annum. The company will have to incur Rs.150 per transaction, when it converts short term securities to cash.
(i) Determine optimum cash balance.
(ii) How much is the total annual cost of the demand for the optimum cash balance?
(iii) How many deposits will have to be made during the year? **(07 Marks)**

c. The following are results expected by XYZ Ltd by quarters next year.

Particulars	Quarters (Rs.000's)			
Sales	7500	10,500	18,000	10,500
Cash Payments:				
Production costs	7000	10,000	8,000	8,500
Selling & other cost	1000	2000	2,900	1,000
Purchase of plant	100	1100	2,100	2,100

The debtors at the end of the quarter are 1/3rd of sales for the quarter. The opening balance of cash at the beginning of the year is Rs.6,50,000 and desired minimum cash balance is Rs.5,00,000. Borrowings are made at the beginning of quarter in which the need will occur in multiples of Rs.10,000 and are repaid at the end of the quarters. Interest charged may be ignored. You are required to prepare :
(i) Cash budget by quarters for the year.
(ii) State the amount of loan outstanding at the end of the year. **(10 Marks)**

4 a. Define Dividend. (03 Marks)
b. State the theories of Dividend Policy. (07 Marks)
c. Explain in detail NI approach and NOI approach. (10 Marks)

5 a. State the cost associated with inventory. (03 Marks)
b. The earnings 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 percent dividend payout ratio. Compute the market price of the companies quoted shares as per Watter's model if it can earn a return of (i) 15% and (ii) 10% on its returned earnings. (07 Marks)
c. A company belongs to a risk class for which the approximate capitalization rate is 10%. It currently has 25,000 shares selling at Rs.100 each. The firm is contemplating the declaration of a dividend of Rs.5 per share. It expects to have a net income of Rs.2,50,000 and has a proposal for making new investment of Rs.5,00,000. Show that under MM assumption, the payment of dividend does not effect the value of firm. (10 Marks)

6 a. What do you mean by optimum capital structure? (03 Marks)
b. A firm requires 90,000 units of certain items annually. The cost per unit is Rs.3. The cost per purchase order is Rs.300 and inventory carrying cost is Rs.6 per unit.
(i) What is EOQ?
(ii) What should firm do if the supplier offers discount as follows:

Order quantity	Discount
4000-5999	2%
6000 and above	3%

(07 Marks)
c. The following is the data regarding two companies x and y belonging to the same risk class.

Particular	Company X	Company Y
Number of ordinary shares	90,000	1,50,000
Market price per share	1.20	1.00
6% Debenture	60,000	-
Profit before Interest	18,000	18,000

All the profits after debentures interest are distributed as dividends. Explain how under Modigliani and Miller approach as investor holding 10% of shares in a company X will be better off in switching his holdings in company Y. (10 Marks)

7 a. What is the annual percentage interest cost associated with the following credit terms: (i) 2/20 net 50 (ii) 1/10 net 30 (03 Marks)
b. Briefly explain the numerical credit scoring system. (07 Marks)
c. A company is considering a selective inventory control using the following data:

Item No.	Unit Cost	Annual Demand
101	05	48,000
102	11	2,000
103	18	300
104	08	800
105	07	4,800
106	16	1,200
107	20	18,000
108	04	300
109	09	5,000
110	12	500

Assuming ABC analysis, arrange the data. (10 Marks)

8 Prepare a cash budget from July-December from the following data:

(i) Estimation of sales expenses etc are as follows: (Rs. is 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 Salaries	12	14	14	18	18	20	22
Misc. expenses	05	6	6	6	7	7	7
Interest received	02	-	-	2	-	-	2
Sale of share	-	-	20	-	-	-	-

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

(iii) 1% of credit sales are returned by the customer, 2% of the debt are uncollectable. 50% of the good account receivables are collected in the month of sale and rest during following month.

(iv) The time lag in payment of miscellaneous expenses and purchases is one month wages and salaries paid fortnightly with a time log of 15 days.

(v) The company keeps a minimum cash balance of Rs.5 lakh. Cash in excess of Rs.7 lakhs is invested in government securities in multiple of Rs.1 lakh. Shortfalls in the minimum cash balance are made good by borrowing from the bank. Ignore interest.

(20 Marks)

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