



## P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Third Semester, Master of Business Administration (MBA)

Semester End Examination; Dec - 2017/Jan - 2018

**Advanced Financial Management**

Time: 3 hrs

Max. Marks: 100

*Note: Answer all FOUR full questions from PART - A and PART - B (Case Study) is compulsory.*

### PART - A

- 1 a. Briefly explain factors influencing on working capital. 10
- b. VSL International Ltd. Provides the UCL and RP with the adoption of MO mode. 10
- Standard deviation of company's daily cash flow `100 000
- The annual yield on marketable securities is 12%
- It maintains a minimum cash balance of `300000
- Cost of buying of selling marketable security is `150/transaction.

### OR

- 2 a. Explain the objectives of Cash Management. 5
- b. Explain cash Flow Process and its relevance. 5
- c. As a financial consultant, prepare a cash budget for a firm whom you have to advice on the amount of overdraft they will revise during the month of August and September. Details are given below: 10
- i) 50% of credit sales are realized in the month following the sales and the remaining sales in the second month following, creditors are paid in the month following the purchase
- ii) Cash in Bank on August 1 is ` 50,000.

Month	Sales (₹)	Purchase (₹)	Wages (₹)
June	360000	224000	24000
July	284000	288000	28000
August	216000	486000	22000
September	348000	492000	20000

- 3 a. Briefly explain the merits and demerits of Lenient credit policy and Stringent credit policy. 10
- b. Calculate the interest cost (on annual % basis) associated with the following credit terms for the sellers and to the buyers : 10
- i) 2/10 net, 50      ii) 2/15 net, 45      iii) 2/5 net, 25      iv) 3/20 net 80.

### OR

- 4 a. Write a short note on tools and Techniques of Inventory control. 10
- b. Best of Luck Company uses annually 80300 units of raw materials at a price of `8/unit. It's estimated that the carrying cost is 14% and its ordering cost is ` 20/order, what will be the economical number of units to order and how after an order will need to be placed? 10

- 5 a. Explain the determinants of Capital Structure. 10
- b. ABC Company is expecting an EBIT of ₹100000, whose equity capitalization rate ( $K_e$ ) is 12.5%. Currently the company has a debt capital of ₹400000 at 8% calculate the value of the firm ( $V$ ) and cost of capital ( $K_0$ ). 10
- Case I: When the company increases debt by ₹200000 uses proceeds to repurchase E.S.
- Case II: When company reduces debt to ₹200000 by issue of E.S. of the same amount.

**OR**

- 6 a. Write a short note on types of dividends. 5
- b. List out the factors which are influencing on Dividend Policy. 5
- c. The following information is available in respect of firm :
- Earning/share (EPS) ₹40                      Capitalisation rate ( $K_0$  or  $K_e$ ) 10%
- Assumed rate of return on Investment ( $r$ ) :
- i) 13%                      ii) 10%                      iii) 8% 10
- You are required to show the effect of dividend payment on the market price / share using Walter's model when dividend payout ratio
- i) 0%                      ii) 25%                      iii) 37.5%
- iv) 50%                      v) 75%                      vi) 100%.

- 7 a. Explain the key features of warrants. 5
- b. Explain the motives behind issues of CD's. 5
- c. A company raised ₹10 crores by issue of ₹100 face value of debenture at 10%. The debentures are convertible in E.S. of ₹50 / share at the end of 5 year. It has ₹20 crores outstanding equity, share capital of ₹10 each and ₹1 crore of preference share of ₹10 each. Prepare capital structure before and after conversion of debenture into equity. 10

**OR**

- 8 a. Explain MARAKON approach and EUA<sup>®</sup> approach. 10
- b. Show schematically the Planning System of a firm. 10

**PART - B****9. Case Study (Compulsory) :**

Two firms Rama Ltd and Krishna Ltd are identical in all respect except debt in capital structure. Rama Ltd has 10% ₹300000 debts. Both the firms have expected operating income of ₹50000. The equity capitalisation rate of Rama Ltd is 20% and Krishna Ltd is 10%. 20

Compute:

- a) Value of firm
- b)  $K_0$
- c) DE ratio shows arbitrage process assuming an investor has 10% shareholdings in Krishna Ltd.

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