U.S.N

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. - 2019

Advanced Financial Management

Time: 3 hrs *Max. Marks: 100*

Note: *i) Answer all **FOUR** full questions from **PART-A** and **PART-B** (Case Study) is compulsory.*
ii) Scientific Calculations are allowable.

PART - A

1 a. Discuss any three short term sources of working capital finance in detail. 6

b. Prepare cash budget summary for January-June from the following information:

The estimated sales and expenses are as follows: (` In thousands)

Particulars	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Sales	200	220	120	100	150	240	200	200
Wages	30	30	24	24	24	30	27	27
Miscellaneous expenses	27	27	21	30	24	27	27	27

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

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

iii) 50% of the credit sales are collected in the month following the sales, 30% in the second month and 20% in the third month. 14

iv) Material for the sale of each month is purchased one month in advance on a credit for 2 months

v) The time-lag in payment of wages is $1/3^{rd}$ of a month and miscellaneous expenses one month

vi) Debentures worth ` 40,000 were sold in Jan month

vii) The firm maintains a minimum cash balance of ` 40,000. Funds can be borrowed at 12% per annum interest rate in the multiples of ` 1,000, the interest being payable on monthly basis Cash balance at the end of December is ` 60,000.

OR

2 a. The annual cash requirement of Atla is ` 10 lakh. The company has marketable securities in lot sizes of ` 50,000, ` 1,00,000 and ` 2,00,000 and ` 5,00,000. Cost of conversion of marketable securities per lot is ` 1,000. The company can earn 5% yield on securities. You are required to 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

b. Explain the different types of factoring. Also discuss the advantages of factoring. 10

3 a. Two components X and Y are used as follows:

Normal usage: 50 units per week each; Minimum usage : 25 units per week each; 10

Maximum usage: 75 units per week each

Contd….2

	X	*Y*
Re-order quantity	300 units	500 units
Re-order period	4 to 6 weeks	2 to 4 weeks

Calculate for each component:

i) Reorder level ii) Maximum level

iii) Minimum level iv) Average level

b. Explain the various credit policy variables influencing credit management of a firm. 10

OR

4 a. A firm's inventory planning period is one year. Its inventory requirement for this period is 1600 units. Assume that its acquisition costs are ` 50 per order. The carrying costs are expected to be ` 1 per unit per year for an item. The firm can procure inventories in various lots as follows: 10

(i) 1600 units (ii) 800 units (iii) 400 units (iv) 200 units (v) 100 units.

Which of these order quantities is the economic order quantity?

b. Explain the different methods of monitoring accounts receivables. 10

5 a. Company X and Y are in the same risk class and are identical in every respect expect that company X uses debt, while company Y does not. The levered firm has 900000 debentures carrying 10% rate of interest. Both firms has asset of ` 15 lakhs. Assume perfect capital market, rational investor and so on, a tax rate of 35% and capitalization of 15% for all equity company. 12

i) Compute the value of firm X and Y using NI approach

ii) Compute the value of firm X and Y using NOI approach

b. Discuss the legal aspects of dividends in India. 8

OR

6 a. The following information is available in respect of the rate of the return on investment the capitalization rate and EPS of Texton company r=12%, E = ` 20

Determine the value of Texton Company's Shares as per Gordon Model 10

	D/P ratio(1–b)	Retention Ratio (b)	K_e (%)
i)	10%	90%	20%
ii)	20%	80%	19%
iii)	30%	70%	18%
iv)	40%	60%	17%
v)	50%	50%	16%

b. Determine the theoretical market value of equity share of a company as per Walter's model. 4

Earnings of the company	` 500000
Dividend paid	` 300000
No. of shares outstanding	100000
Price-Earnings ratio	8
Rate of return on investment	0.15

Are you satisfied with the current dividend policy of the firm? If not what should be the optimal

Contd….3

dividend payout ratio in the case?

c. Describe the features of preference shares. 6

7 a. Distinguish between Venture capital and private Equity. 8

b. Two components X and Y belong to the same risk group. Two companies are identical in every respect except that Y is levered while X is unlevered. The outstanding amount of debt of the levered firm is 600000 in 10% debentures. The other information for the two companies are as follows:

Particulars	X	Y
Net operating Income	150000	150000
Interest on debt	-	60000
	150000	90000
Equity Capitalization rate	0.15	0.20
Market value of equity	1000000	450000
Market value of debt	-	600000
Total Value of the firm	1000000	1050000
Overall Capitalisation rate	0.15	0.143
Debt/ equity ratio	0	1.33

12

An investor owns 5% of the equity shares of the company Y. Show the arbitrage process and the amount by which he could reduce his outlay through the use of leverage. Are there any limits to the process?

OR

8 a. Briefly explain the elements of corporate financial plan. 5

b. Describe the methods of preparing the proforma profit and loss account. 5

c. Two firms L and U are identical in all respects except for the debt equity mix. Firm L has issued 6% debentures of 500000. Firm U has no debt. Both L and U have EBIT of ` 1500000 and the equity capitalization rate is 10%. Assuming the corporate tax of 40%, Calculate the value of the firm using MM approach. 10

PART - B (Case study – Compulsory)

9. Radiance Garments Ltd., Manufacturers readymade garments and sells them on credit basis through a network of dealers. Its present sale is ` 60 lakh per annum with 20 days credit period. The company is contemplating an increase in credit period with a view to increasing sales. Present variable costs are 70% of sales and the total fixed costs ` 8 lakh per annum. The company expects pre-tax return on investment at 25% some other sales details are given as under: 20

Proposed Credit policy	Average collection (in days)	Expected Annual sales (` in lakhs)
I	30	65
II	40	70
III	50	74
IV	60	75

Which credit policy should the company adopt? Present your answer in a tabular form. Assume 360 days in a year. Calculations should be made up to 2 digits after decimal.

* * *