



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; February / March - 2022

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. Explain the three alternative approaches for working capital. 10
- b. The following data is available on consumption pattern of certain materials in an organization.

Group	I	II	III	IV	V	VI	VII	VIII
No. of items	40	20	100	200	60	300	250	30
Monthly consumption (Units)	300	270	1700	1500	340	2500	2000	170
Price of item	90	100	5	4	50	1	2	500

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Find out A, B, C item when: A item account for 85%; B item account for 10%; C item account for 5% of consumption value.

OR

- 2 a. From the following you are required to calculate;
- i) Re-order level ii) Minimum level iii) Maximum level
- Normal Usage : 100 u / day
- Maximum usage : 130 u / day
- Minimum usage : 70 u / day
- EOQ : 5000 Units
- Re-order period : 25 to 30 days

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- b. The following information is available for two companies Box and Cox.

Particulars	Box (` In Million)	Cox (` In Million)
Current Assets	150	50
Net fixed Assets	50	150
Total Assets	200	200
EBIT	30	30
ROI	15%	15%

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Calculate working capital leverage, if there is a 20% reduction / increase in current assets.

- 3 a. What are the legal aspects of dividend in India? 10

- b. The EPS of a company is ` 8 and the rate of capitalization applicable is 10%.
 The company has before it option of adopting, (I) 50 (II) 75 (III) 100% DP Ratio (Dividend Payout Ratio). 10
 Compute the market price of the company's quoted share as per Walter model, if it can earn a return of, (i) 15% (ii) 10% (iii) 5% on its earnings.

OR

- 4 a. Briefly explain the elements of corporate financial plan. 10
 b. Explain the important factors affecting working capital. 10
 5 a. Write a note on: 10
 i) Homemade leverage ii) Arbitrage Process iii) Reverse Leverage
 b. Company P & Q are in the same Risk class and are identical in every respect except that company P uses debt, while company Q does not. The levered firm has 9,00,000 debentures carrying 10% rate of interest. Both the firm has assets of ` 15 lakhs and EBIT is 3,00,000/-. Assume perfect capital market, rational investor and so on, a tax rate of 35% and capitalization of 15% for all equity company. Compute value of each firm using, (i) NI approach and (ii) NOI approach. 10

OR

- 6 a. Discuss the strategies for managing the surplus fund. 10
 b. The following are results expected by XYZ Ltd., by quarters next year, in thousand of rupees.

Particulars	Quarters (Rs. 000's)			
	1	2	3	4
Sales	7500	10,500	18,000	10,500
Cash payments :				
Production cost	7000	10,000	8,000	8,500
Selling, Admn & Other costs	1000	2000	2,900	1600
Purchase of Plant & Other FA	100	1100	2100	2100

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The debtors at the end of a quarter are one third of sales for the quarter. The opening balance of debtors is ` 3,00,000. Cash on hand at the beginning of the year is 6,50,000 and the desired minimum cash balance is ` 5,00,000. Borrowings are made at beginning of Quarter in which the need will occur in multiples of ` 10,000 and are repaid at the end of the quarters. Interest charged may be ignored. You are required to prepare; (i) A cash budgets by quarters for the year

(ii) State the amount of loan O/s at the end of the year

- 7 a. Discuss the features of Miller and Orr cash management model. 10

- b. Solomon industries feel a lock-box system can shorten its accounts receivables collection period by 3 days. Credit sales are estimate at ` 365 lakh per year, billed on a continuous basis. The firms opportunity cost of funds is 15%. The cost of lock box system is ` 50,000. 10

- (i) Will you advise 'Solomon's to go for lock-box system?
 (ii) Will your answer be different if account receivable collection period is reduced by 5 days?

OR

- 8 a. (i) What are the principal Motives for holding cash? 5
 (ii) What are the different types of factoring? Explain. 5
- b. A firm requires 90,000 units of certain items annually. The cost per unit is ` 3. The cost purchase order is ` 300 and inventory carrying cost is ` 6 per unit.
 (i) What is EOQ?
 (ii) What should firm do if the suppliers offers discount as follows: 10

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

PART - B (Case Study Compulsory)

9. The following is the data regarding two companies A and B belonging to the same risk class.

Particulars	Co. A	Co. B
No. of Ordinary shares	90,000	1,50,000
Mkt. Price per share	1.20	1.00
6% Debenture	60,000	-
P.B.T.	18,000	18,000

All profits after debenture interest are distributed as dividends. Explain how under Modigliani and Miller approach an investor holding 10% of shares in company A will be better off in switching his holding in Company B. 20

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