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

(An Autonomous Institution affiliated to VTU, Belgaum)

Third Semester – Master of Business Administration (MBA)

Semester End Examination; Dec. - 2015

Advanced Financial Management

Time: 3 hrs

Max. Marks: 100

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

### PART - A

- 1 a. What are the sources of working capital? 10
- b. Advani chemical Ltd. Estimates its total cash requirement as ` 2 crores next year. The company's opportunity cost of fund is 15% p.a. The company will have to incur ` 150 per transaction when it converts its short term securities to cash. 10
- Determine the optimum cash balance. How much is the total annual cost of the demand for the optimum cash balance? How many deposits will have to make during the year.

**OR**

- 2 a. From the information and assumption that the cash balance in hand on 1<sup>st</sup> Jan. is ` 72,500. Prepare a cash budget. 15
- Assume that 50% of total sales are cash sales. Assets are to be acquired in the month of February and April. Therefore, provisions should be made for the payment of ` 8000 and ` 25000 for the same. An application has been made to the bank for the grant of a loan of ` 3000 and it is hoped that the loan amount will be received in the month of May. It is anticipated that a dividend of ` 35000 will be paid in June. Debtors are allowed one month's credit. Creditors for materials purchased and overheads grant one month credit, sales commission at 3% on sales is paid to the salesman each month.

Month	Sales	Purchase	Salary and Wages	Production overhead	Office and selling overheads
Jan	72000	25000	10000	6000	5500
Feb.	97000	31000	12100	6300	6700
March	86000	25500	10600	6000	7500
April	88600	30600	25000	6500	8900
May	1,02,500	37000	22000	8000	11000
June	1,08,700	38800	23000	8200	11500

- b. Discuss the receipts and payment methods of cash budgeting. 5
- 3 a. The Multown Company Ltd is currently following a centralizes collection system. The company thinking of establishing Lock-box system. The following information are given by 5

the company

Contd...2

Average number of daily payment : 50

Average size of payment : ` 8000

Savings in mailing and processing time : 2 days

Annual rental for lock box : ` 3000

Bank charges for operating lock box : ` 72000

Interest Rate : 15%

i) Find out the increase in collected balance

ii) Determine the opportunity cost of the centralized collection system

iii) Should the lock box system be established?

- b. Enumerate the various sources of finance which more or less exclusively support current assets. 10
- c. Explain the three principle motives for holding cash. 5

**OR**

- 4 a. What are the differences between warrants and convertible debentures? 3
- b. Describe briefly the important types of intangible assets and three broad approaches to valuing an intangible asset. 7
- c. ABC company manufacturers 5000 units of a production /month. The cost of placing an order is ` 100. The purchase price of raw material is ` 10/kg. The re-order period is 4 to 8 weeks. The consumption of raw materials varies from 100kg to 450 kg/week. The average consumption being 275 kg. The carrying cost of inventory is 20% per annum and the re-order quantity is 1196 kg. Also calculate the Re-order level, minimum and maximum stock level and average stock level. 10
- 5 a. Explain the important dimensions of a firm's credit policy and five 'C's of credit. 10
- b. The present credit terms of Multimedia Company are 2/15, net 45. Its sales are ` 200 million. Its average collection period ACP is 30 days. Its variable cost to sales ratio is 0.80 and its cost of capital is 12%. The proportion of sales on which customers currently take discount is 0.5. Multimedia is considering relaxing in discount terms to 3/15, net 45. Such a relaxation is expected to increase sales by ` 10 million reduce the ACP to 27 days and increase the proportion of discount sales to 0.6, Multimedia tax rate if 40%. What will be the effect of liberalizing the cash discount on residual income? 10

**OR**

- 6 a. What is factoring? Explain the features and mechanism of factoring. 10
- b. PKG Co. has a policy of maintaining a minimum cash balance of ` 500000. The standard deviation of the company's daily cash flow is ` 200000. The annual interest Rate is 14%. Transaction cost is ` 150/ transaction. Determine PKG's upper control limit and the return point as per the Miller - Orr model. 10
- Contd...3

- 7 a. What are the assumptions and implications of the Walter and Gordon's model on dividend policy? 10
- b. A company is considering a selective inventory control using the following data:

Item	Units	Unit cost	Item	Unit	Unit cost
1	6000	4.00	7	26640	0.65
2	61200	0.05	8	14760	0.40
3	16800	2.10	9	20520	0.40
4	3000	6.00	10	90000	0.10
5	55800	0.20	11	29940	0.50
6	22680	0.50	12	24660	0.50

Assuming the ABC Analysis of selective control is indicted arrange the data for presentation to the management. 10

**OR**

- 8 a. The Capital structure of Tulsion Ltd is as follows:
- E.S. Capital (` 100 each) : ` 100 lakhs
- Earning for E.S. : ` 10 lakhs
- Price of share in the beginning : ` 100 10
- Equity Capitalisation rate : 10%
- Reserved.
- i) Calculate the theoretical market price of equity share under MM model, if the company is considering a payout of 0% and 80%
- b. Write a note on:
- i) Sales forecasting techniques 10
- ii) Elements of Corporate Financial Plan

**PART - B**

- 9 **Case Study :**
- a. RND Company earns ` 4/share, capitalization rate of 15% and has a rate of return on investment is 20%. According to Walter's model what should be the price per share at 15% 10

and 10% dividend payment ratio? Is this the optimum payment ratio according to Walter?

- b. The Vikas Engineering Company Ltd. Currently has 1 lakh outstanding shares selling at ` 100 each. The firm has net profit of ` 10 lakh and want to make an investment of ` 20 lakh during the period. The firm is also thinking a dividend of ` 5 per share at the end of the current fiscal year. The firm's opportunity cost of capital is 10%. What will be the price of the share at the end of the year?

10

i) Dividend is not declared

ii) Dividend is declared

iii) How many new shares must be issued?

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