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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)

Make-up Examination; Jan / Feb - 2017

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 phases of operating cycle. 5

b. Distinguish between gross working capital and net working capital. 5

c. The balance sheet of M/s Pands and Co. ltd., stood as follows as on March 31st of the current year.

Liabilities	`	Assets	`
Current liabilities	2,000	Current assets	8,000
LT funds	22,000	F.A.	16,000
Total	24,000		24,000

10

If CA earn 2%, FA earn 14%, CL cost 4% and LT funds costs 10%, calculate :

i) Total profits and the ratio of CA to TA

ii) The cost of financing and the ratio of CL to TA

iii) Net profitability of the current financing plan.

OR

2 a. What is cash management? Explain cash forecasting methods. 5

b. Prepare monthly budget from 6 months beginning from April-2016 on the basis of following information.

i) Estimated monthly Sales

Month	`	Month	`
January	1,00,000	June	80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

15

ii) Wages and salaries are estimated to be payable as follows :

Month	`	Month	`
April	9,000	July	10,000
May	8,000	August	9,000
June	10,000	September	9,000

iii) Cash sales are 75% less than the credit sales. 75% of credit sales are collected within one month and the balance in two months.

iv) Purchases amount to 80% of sales and are made and paid for in the month preceding the sales.

v) The firm has 10% debenture of ` 1,20,000. Interest on these has to be paid quarterly.

vi) The firm has to be make an advance payment tax of 75,000 in July 2016.

vii) The firms cash balance is ` 20,000 on April 1 2016.

3 a. How to decide whether or not to engage a factor? 10

b. A trader whose current sales of ` 6,00,000 per annum and an average collection period of 30 days want to more liberal policy to improve sales. A study made by a management consultant reveals the following information.

Credit Policy	Increase in Collection period	Increase in Sales (`)	Present defeant anticipated
A	10 days	30,000	1.5%
B	20 days	48,000	2%
C	30 days	75,000	3%
D	45 days	90,000	4%

10

The selling price per unit is ` 3, Average cost per unit is ` 2.25 and the variable cost per unit ` 2,The current bad debt is 1%, Required return on investment is 20%, Assume 360 days/ year.

OR

4 a. Explain the assumptions of EOQ Technique. 10

b. A company manufactures 5000 units of a product per month. The cost of placing an order is ` 100. The purchase price of the raw material is ` 10/kg. The re-order period is 4 to 8 weeks. The consumption of raw materials varies from 100 kg to 450 kg per week, the average consumption being 275kg. The carrying cost of inventory is 20% / annum. 10

You are required to calculate :

i) Re-order Quality ii) Re-order level iii) Maximum stock level

iv) Minimum stock level v) Average stock level.

5 a. Explain the effect of arbitrary process. 10

b. Jalan Ltd. is an unlevered firm and its cost of equity is 15%, Tulesian Ltd. is a levered firm of the same industry using 10% debt and Tax rate 40%.

Using MM approach, calculate the cost of equity in case of Tulsian Ltd. If the debt components in its capital structure is, 10

i) 10% ii) 20% iii) 30% iv) 40%

v) 50% vi) 60% vii) 70% viii) 80%.

Contd….3

OR

6 a. Briefly discuss the Walter model with assumptions. 10

b. The cost per share of a company are ` 10 and the capitalization rate applicable to it is 10%, The company has before it the option of Adopting a payout of 0% or 50% or 100%. Using Gondon formula, compute the market value of the company's share, if the productivity of retaining earnings is i) 20%, ii) 10% and iii) 8%. 10

What inference can be drawn from the situation?

7 a. As per SEBI guidelines, what are the provisions applicable to Fully Convertible Debentures (FCDs) and Partly Convertible Debentures (PCDs). 10

b. Explain EVA and explain the three components. 10

OR

8 a. Explain the elements of corporate financial plan. 10

b. Discuss the formula for estimating the external fund requirement. 10

PART - B

9. **Case Study:**

The following data related to two companies belonging to the same risk class.

	X Ltd.	Y Ltd.
Expected Net operating Income	2,40,000	2,40,000
10% Debt	7,20,000	-
Equity capitalization rate	-	15%

a. Determine the equilibrium value, equity capitalization rate and WACC for each company assuming no tax rates as per MM approach. 10

b. Determine the equilibrium value, equity capitalization rate and WACC for each company assuming 40% corporate taxes as per MM approach. 10

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