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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 - 2016/ Jan - 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. What are the factors determining working capital requirements? 10

b. Explain the concept of Gross Working Capital and Net Working Capital. 10

OR

2 a. Kanchan Ltd. require ` 30,00,000 in cash to meet the transactions needs during the next 3 months cash planning period. It holds marketable securities of an equal amount. The annual yield on these marketable securities is 20%. The conversion of these securities into cash entitles a fixed cost of ` 3,000 per transaction. Using Baumol Model compute the amount of marketable securities converted into cash per order. 10

b. Discuss the strategies for managing surplus cash. 10

3 a. Renu Ltd. Books of accounts reveals the following :

i) Cost of inward inspection ` 48,000

ii) Obsolesence and pilferage in stores ` 20,000

iii) Cost of material handling in stores ` 15,000

iv) Cost of bill payment ` 30,000

v) Interest rate of inventory value 20% p.a.

vi) Taxes and Insurance 1% p.a.

vii) Travelling and purchase expanse ` 80,000

viii) Cost of security for warehousing ` 80,000

ix) Expenses incurred in warehouse, personal salaries ` 2,75,000

x) Staff salaries and purchases department 2,50,000

Calculate ordering cost, carrying cost and EOQ. 10

b. Explain the 4 C's of Credit Management. 10

OR

4 a. A firm has a current sales of ` 7,20,000. It is considering offering the credit terms 2/10 net 30, instead of net 30 days. It is expected that sales will increase by ` 20,000 and the average collection period will reduce from 30 days to 20 days. It is also expected that 50% of 10

Bad debt losses will remain at 2% of sales. The firm's variable cost is 70%, tax rate is 50% and cost of investment is receivable is 10%. Should the company change the credit term?

b. Discuss the NI and NOI theories of capital structure. 10

5 a. Siyya Ltd. has a capital structure comprising ordinary shares amounting ` 1,00,000. The firm now wish to raise ` 1,00,00 for investment. The company has four alternatives :

i) Entire amount in the form of equity shares

ii) 50% equity and 50% as 5% debentures 10

iii) Entire amount by 5% debentures

iv) 50% equity and 50% at 5% preference shares.

The enlisting EBIT is 10,000. The tax rate is 50% and outstanding number of equity shares is 1000 which financing plan does Siyya Ltd. would select?

b. Explain the factors influencing dividend policy of a firm. 10

OR

6 a. The following information is available in respect of 3 companies, 10

	V	P	S
r	13%	12%	10%
Ke	12%	12%	12%
E	50	50	50

Calculate the effect of dividend payout on the price of equity share holders using Walter Model, if the dividend payout ratio is 0% and 40%.

b. Explain the arbitrage process in MM theory. 10

7 a. What do you mean by float and what are its types? 10

b. Write short note on : 10

i) Warrants ii) Convertibles.

OR

8 a. What do you mean by Market value added and Economic value added? 10

b. Discuss EVA. Explain its three components. 10

PART - B (Compulsory)

9. **Case Study:**

From the following data the sales forecast of Sahi for the first 5 month of the coming year are, 20

January	40,000
February	45,000
March	55,000
April	60,000
May 5	50,000

Other data is as follows :

Debtor and Creditors balance at the beginning of the year is ` 30,000 and ` 14,000 respectively.

The balance of other assets are Cash ` 7500, Stock ` 51,000 Accrued. Sales commission ` 3,500.

40% of the sales are in cash and remaining 60% is credit which is collected in the month following the sales.

Cost of Sales is 60% of sales

Only other variable cost is commission at 5% to salesman which is paid in the month after it is earned.

Inventory is kept equal to sales requirement for the next 2 months budgeted sales.

Trade creditors are paid in the month after purchased, Fixed cost is ` 5,000 per month which includes 2,000 depreciation.

Prepare a cash budget for first 3 months of coming year.

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