22

05MBAFM321

USN

NEW SCHEME

Third Semester MBA Degree Examination, July 2007
Business Administration
Advanced Financial Management

Time: 3 hrs.] [Max. Marks:100

Note : ***Answer any FOUR full questions from Q.No.1 to 7 and Q. No.8 is compulsory.***

1 a. Explain operating cycle and cash cycle. **(03 Marks)**

b. What are the various short-term sources of finances? Explain with their features. **(07 Marks)**

c. What is the annual percentage interest cost associated with the following credit terms:
i) 2/20 net 50 ii) 2/15 net 40 iii) 1/15 net 30
Assume I) 360 days to a year II) Firm does not avoid discount but pays on the last day of the net period. **(10 Marks)**

2 a. What do you mean by ageing schedule? **(03 Marks)**

b. Explain the motives for holding inventories. **(07 Marks)**

c. Consider the data for Amit & Co.,

	(Rs. in lakh)
Current Assets	
Inventories	700
Debtors	600
Cash	150
	1450
Current Liabilities	
Trade creditors	400
Provisions	200
	600

What is Maximum Permissible Bank Finance (MPBF) under Tendon method? Assume current core assets CCA of the firm as Rs.600 lakhs. **(10 Marks)**

3 a. Mention the three important dimensions of a firm's credit policy. **(03 Marks)**

b. What are the assumptions regarding cash flow pattern under Baumol, Millor-ORR & Stone model? **(07 Marks)**

c. Estimated annual requirement of a firm is

	1200 units
Purchasing cost per unit	Rs.50
Ordering cost/order	Rs.37.50
Carrying cost/unit	Rs.1

Calculate the E.O.Q. There is an offer of discount of 0.5% or Re.0.05 per unit quantity discount on orders of 400 units or more. What would be the net savings if the discount offered is accepted? **(10 Marks)**

4 a. Explain the ABC analysis in inventory management. **(03 Marks)**

b. Explain the features and assumption underlying the relationship of investment decision and dividend policy under Gordon Model and M.M. Theory. **(07 Marks)**

c. ZBB Co., needs Rs.5,00,000 for construction of a new plant. The following three financial plans are feasible:
i) By issue of 50,000 equity shares of Rs.10/ each
ii) By issue of 25000 equity shares of Rs.10/ each and 2500 debentures of Rs.100 @ 8%.

The Co.'s earnings before interest and taxes are Rs.60,000. What are the earnings per share under each financial plan? Assume corporate tax rate to be 50%. **(10 Marks)**

Contd.... 2

5 a. What is transfer pricing? **(03 Marks)**

b. Bring out the difference between bonus share and stock split. **(07 Marks)**

c. ABC CO., wishes to arrange overdraft facilities with its bankers during the period. April to June 2007. Prepare a cash budget for the above period from the following data indicating the extent of bank facilities the Co., will require at the end of each month:

Month	Sales Rs.	Purchase Rs.	Wages Rs.
February	1,80,000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

50% of the credit sales are realized in the month following the sales and the remaining 50% in the second month following. Creditors are paid in a month's period. Cash at the beginning on 1.4.2007 is estimated to be Rs.25000. **(10 Marks)**

6 a. What are the causes of sickness in a firm? **(03 Marks)**

b. Explain the meaning of divisional performance and its measurement. **(07 Marks)**

c. What are the symptoms of sickness in a firm? Explain the procedure of revival of a sick limit. **(10 Marks)**

7 a. Bring out the distinctive features of corporate governance in private sector and public sector in India. **(05 Marks)**

b. The Levered Co., and the Unlevered Co., are identical in every respect except that Levered Co., has 6% 2,00,000 debt outstanding. As per NI approach, the valuation of the two firms is as follows:

	Levered Co., L	Unlevered Co., U
NI	Rs.60,000	60,000
Cost of debt.	0	12,000
Equity capitalization rate	100	111
Market value of share	6,00,000	4,32,000
Market value of debt.	0	2,00,000
Total value of firm	6,00,000	6,32,000

Mr.'X' holds Rs.2000 worth of levered Co., shares. Is it possible to reduce his outlay to earn the same return through the use of arbitrage? **(15 Marks)**

8 Sudarshan trading Co., is considering to increase its credit period from net 35' to net 50'. The firm's expected sales to increase from Rs.120 lakhs to Rs.180 lakhs and ACP to increase from 35 days to 50 days. The bad debt ratio and collection cost ratio are expected to remain at 5% and 6% respectively. The firm's available cost ratio is 85%, corporate tax rate 35% and after tax required rate of return is 20%. You are the newly appointed collection / receivable manger expected to analyze and offer opinion on credit relaxation proposal, indicating:

a. Credit granting decision

b. Effect of extending credit period

c. Incremental investment in receivables under this situation

d. Marginal rate of return and

e. Net increase in operating profit. **(20 Marks)**

*****