Printed Pages – 7 Roll No. .....

576214(76)/676213(76)

# M. B. A. (Second Semester) Examination, April-May 2021

## ADVANCED FINANCIAL MANAGEMENT

***Time Allowed : Three hours***

***Maximum Marks : 80***

***Minimum Pass Marks : 32***

***Note** : Answer as per instructions.*

### Unit-I

**1.** Answer : (any **two**) 2×8=16

(a) Financial management deals with three major functions namely, financing, investment and profit. Explain.

(b) Profit/EPS maximization is the sole objective of financial management. Explain.

(c) Mr. X deposits ₹ 500, ₹ 1,000, ₹ 1,500, ₹ 2,000 and ₹ 2,500 every year for 5 years at 5% rate of interest. What will be the value of his investment at maturity?

## Unit-II

**2.** (a) The following is the capital structure of X Ltd. as on 31st March.

| | |
|---|---|
| Equity Shares ₹ 10,000 @ ₹ 100 each | ₹ 10,00,000 |
| 12% Preference shares @ ₹ 100 each | ₹ 4,00,000 |
| 10% Debentures @ ₹ 100 each | ₹ 6,00,000 |
| Total | ₹ 20,00,000 |

The following in the financing details :

(i) The company is in 35% Tax bracket.

(ii) Debentures to be redeemed after 10 years incur a floatation cost of 2%.

(iii) The preference shown incur a floatation cost of 5% and one issued at 10% discount having a maturity of 5 years.





(iv) The market price of company's shown is ₹ 110 and the dividend declared in and ₹ 10 growth rate is 6%.

Calculate Book Value WACC. 16

**Or**

(b) Explain the Curdon's model dividend relevance with illustration.

## Unit-III

**3.** Answer : (any **one**) 16

(a) Explain the net income and Net operating income approach of capital structure.

(b) Calculate the value and overall cost of levered and unlevered firm :

| Details | Unlevered Firm | Levered firm |
|---|---|---|
| EBIT | 2,40,000 | 2,40,000 |
| Debt | — | 7,20,000 |
| Kd | — | 10% |
| Ke | 15% | ? |
| Tax | 40% | 40% |

(c) From the following information, calculate the income statement :

| Particulars | 'X' | 'Y' |
|---|---|---|
| Variable cost on a % of sales | 50% | 60% |
| Interest | 20,000 | 60,000 |
| Degree of Operating Leverage | 3 :1 | 5 : 1 |
| Degree of Financial Leverage | 2 :1 | 3 : 1 |
| Tax rate | 55% | 55% |

## Unit-IV

4 Answer : (any **two**) 2×8=16

(a) Explain how Capital Budgeting projects are evaluated on the basis of after form cash flows? What are the methods of Capital Budgeting?

(b) The initial outlay for Machine 'A' and Machine 'B' are ₹ 56,125. For the cash in flow before depreciation and after tax, given below, calculate IRR for both the projects.





| Year | Cash flow Machine 'A' ₹ | Cash flow Marchine 'B' ₹ |
|---|---|---|
| 1 | 14,000 | 22,000 |
| 2 | 16,000 | 20,000 |
| 3 | 18,000 | 18,000 |
| 4 | 20,000 | 16,000 |
| 5 | 25,000 | 17,000 |

(c) Illustrate the preparation of cashflow statement.

## Unit-V

Answer : (any **one**) 1×16=16

5. (a) Explain Boumol's model of determining optimum cash balance.

(b) Explain three district approaches towards financing current assets.

(c) The following details one available in respect of a firm :

(i) Inventory requirement per year, 6,000 units

(ii) Cost per unit ₹ 5

(iii) Carrying cost per item ₹ 1

(iv) Cost of placing order ₹ 60 per order

(v) Alternative order sizes 6,000, 3,000, 2,000 and 1,000

Determine Economic Order Quantity.

(d) Prepare a statement showing the estimation of working capital for 1,56,000 units of production. The costs are as under :

| Particulars | Cost per unit (₹) |
|---|---|
| Raw materials | 90 |
| Direct labour | 40 |
| Overhead | 75 |
| Cost of production | 205 |
| Profit | 60 |
| Sales | 265 |

(i) Raw materials are in stock for 1 month.

(ii) WIP in process for 1 month.

(iii) Finished goods are in stock for 1 month.

(iv) Credit allowed is 1 month (Creditors).





(v) Credit given is 2 months (Debtors).

(vi) Lag in payment of wages 1·5 weeks.

(vii) Lag in overheads 1 month.

(viii) Cash in hand ₹ 60,000.

(ix) 80% output is sold against cash.