Seat No. : _____

AN-110

April-2022

MBA Five Years Integrated Course, Sem.-VIII

Advanced Financial Management

Time : 2 Hours] **[Max. Marks : 50**

SECTION-I
Attempt any THREE Questions out of FIVE Questions

1. (A) Explain the Mechanism of Financial System in India. **7**

   (B) From the following information about a stock, Calculate **7**

   (i) Expected Return

   (ii) Standard Deviation

   (iii) Coefficient of Variation

Level of Demand	**Probability of demand**	**Rate of return**
Strong	0.1	50
Above Average	0.2	20
Average	0.4	15
Below Average	0.2	– 5
Weak	0.1	– 40

2. (A) "Capital Budgeting is a complex process." Evaluate the statement by discussing the steps involved in Capital Budgeting. **7**

   (B) Mr. A, an MBA Student with entrepreneurship specialization is considering a new project, the cost of project is 20,00,000. He has estimated the Projects Net cash flows (NCF) over its 2 years life as follows : **7**

Cash flow	Year 1	Probability	Year 2	Probability
NCF	11,00,000	0.4	900,000	0.6
			12,00,000	0.4
NCF	13,00,000	0.6	17,00,000	0.5
			21,00,000	0.5

Mr. A's expected rate of return from the project is 14%. Evaluate the project using decision tree approach and suggest whether the project should be accepted or not.

3. (A) How is Net Operating Income (NOI) Approach of Capital Structure theory different from Net Income (NI) Approach ? **7**

(B) A company's present capital structure consists of 2,00,00,000 equity shares. It requires 10,00,00,000 of external financing for which it is considering two alternatives. **7**

Alternative 1	Issue 50,00,000 equity shares of ₹ 10 par at ₹ 20 each
Alternative 2	Issue 30,00,000 equity shares of ₹ 10 par at ₹ 20 each and 40,00,000 preference shares of ₹ 10 par carrying 11 % dividend

The company's tax rate is 40%

(a) What is the EPS- EBIT indifference point for alternatives 1 & 2 ?

4. (A) EAJ Co. has a policy of maintaining minimum cash balance of 10,00,000. The standard deviation of the firm's daily cash flow is ₹ 4,00,000. The firm has 16% short-term marketable securities, which may require ₹ 300 as sales expenditure or purchase expenditure (transaction cost). Compute the company's upper control limit and return point by using Miller Orr Model. **4**

(B) Gokul plastics currently provides 20 days of credit to its customers. Gokul's present sales are ₹ 9 lakhs. The contribution margin ratio is 0.25 per cent. Gokul is considering extending its credit period by 10 days, such an extension of credit increases the sales to ₹ 10 lakhs at the same time it involves 5 per cent bad debt loss on new sales. Calculate the change in Net profit (residual income) with the assumption of 40% tax rate and cost of capital is 12% and also suggest that should Gokul implement the proposed extension of credit period. Give reason. **10**

5. (A) Define exposure. Discuss its types in detail. **7**

(B) A firm belongs to a risk class for that the appropriate capitalization rate is 10%. It has 25,000 shares outstanding and selling at ₹ 100 each. The firm's expected earnings available to shareholders are ₹ 600,000 and it has an investment proposal costing ₹ 800,000. The firm is contemplating the declaration of ₹ 14 as dividend at the end of current financial year. Assuming MM assumptions you are required to compute value of firm : **7**

(a) When dividends are declared

(b) When dividends are not declared

SECTION-II is Compulsory.

Each MCO carries 2 marks (Attempt any 4 MCOs out of 5)

(1) Mr. X receives Rupees 1000 a year for the first 8 years and rupees 4000 a year forever thereafter. Calculate the present value if the interest rate is 12% per annum.

(a) ₹ 25,763

(b) ₹ 45,633

(c) ₹ 38,300

(d) ₹ 18,431

(2) A firm has 90 day receivable of $ 5000. The firm exports the goods when the rate of exchange between INR/$ is 43.50. But on the actual date of settlement, the rate turns out to be INR 43.65/$. The risk faced by the firm on receivable is:

(a) $250

(b) ₹ 250

(c) ₹ 750

(d) $750

(3) VS International is thinking to raise funds by issuing equity capital. The current market price of the share is ₹ 150. The firm is expected to pay a dividend of ₹ 3.9 next year. At present the firm can sell share for ₹ 140 each and involves floatation cost of ₹ 10. Calculate cost of new issue.

(a) 2.6%

(b) 3%

(c) 2.79%

(d) 3.9%

(4) Given the financial leverage of 2 and fixed interest charges of ₹ 1,00,000. Find out the operating Profit.

(a) 2,50,000

(b) 2,00,000

(c) 1,50,000

(d) 4,00,000

(5) A cash Budget for the six months ended on 30th September 2020 shows an anticipated overdraft of approximately ₹ 9,05,500. Which of the following would reduce the expected overdraft ?

(a) Allowing customers two months credit, instead of one month credit, in which to pay.

(b) Suppliers' purchases being made for cash, instead of one month's credit

(c) Assets being leased, rather than purchased for cash, in 2020.

(d) Charging depreciation on fixed assets at 25% on the straight line basis rather than 20%