

**AA-115**

April-2023

Ind. MBA, Sem.-VIII

**Advanced Financial Management**

Time : 2:30 Hours]

[Max. Marks : 70

1. (a) Briefly explain the key activities of financial manager and explain scope of financial management. 7
- (b) A person estimates that he would require ₹ 10 lakhs after 5 years for higher education of his child. For the purpose, how much amount he should save and invest (i) now (ii) every year if rate of interest is 12% p.a.? What will be your answer if he starts investing from the beginning of year 1? 7
2. A company is using a machine whose original cost was ₹ 3,70,000. The machine is two years old and has a remaining useful life of 10 years. It is expected that scrap value of this machine after its useful life will be ₹ 10,000 but if it is sold now, it would fetch ₹ 1,10,000. The straight line method of depreciation is used.
- The management is contemplating replacing the machine with a newer and more efficient machine which costs ₹ 4,20,000 and has an estimated salvage value of ₹ 20,000 after its useful life of 10 years. The new machine will have a greater capacity and will have additional generation of cash flow of ₹ 50,000 p.a.
- The company's tax rate is 50%. Additional working capital required for the new machine would be of ₹ 55,000. Advise the company about the replacement of the machine assuming the cost of capital to be 12%. 14

**OR**The expected cash flows of a project are given below : 14

Year	Cash Flow (₹)
0	(50,000)
1	10,000
2	30,000
3	20,000
4	20,000
5	10,000

The certainty equivalent factor behaves as per the following equation :  $\alpha_t = 1 - 0.08t$ 

Calculate the net present value of the project if the risk-free rate of return is 8 percent.

3. (a) XYZ Ltd. has an EBIT of ₹ 1,60,000. Its capital structure comprises of the following securities : 7

₹	
Equity share of ₹ 100 each	4,00,000
12% preference shares	1,00,000
10% Debentures	5,00,000

The company is in the 50% tax bracket. You are required to ascertain:

- (1) The company's EPS.
  - (2) The degree of financial leverage.
- (b) The following information is available for two firms, A Ltd. and B Ltd. 7

	A Ltd.	B Ltd.
Net operating income	₹ 32,00,000	₹ 32,00,000
Interest on debt	Nil	4,80,000
Cost of equity	16%	16%
Cost of debt	12%	12%

Calculate the market value of equity, market value of debt, and market value of the firm for A Ltd. and B Ltd. using Net Income approach. What is the average cost of capital for each of the firms ?

4. From the following information of XYZ Ltd., estimate the working capital needed to finance a level of activity of 1,20,000 units of production after adding a 10% safety margin. 14

Cost per unit (₹)	
Raw materials	78
Direct labour	29
Overheads	<u>58</u>
Total cost	165
Profit	<u>24</u>
Selling price	<u>189</u>

**Additional information :**

- Average raw materials in stock one month
- Average materials in process (50% completion stage) half a month
- Average finished goods in stock one month
- Credit allowed by suppliers one month
- Credit allowed to customers two months
- Time lag in payment of wages quarter of a month
- Time lag in payment of overheads one month

One fourth of the sales are on cash basis. Cash balances expected to be ₹ 2,15,000. You may assume that production is carried on evenly basis throughout the year and wages and overhead expenses accrue similarly.

**OR**

- (a) Discuss various techniques of monitoring receivables. 7
- (b) Consider the following data for a certain item purchased by A Ltd. 7

Annual usage	15,000 units
Fixed cost per order	₹ 1,000
Purchase price per unit	₹ 250
Carrying cost	20%

What is the economic order quantity? If the discount of ₹ 12.50 is offered, if the order size is 2,500 units, should the company seek the discount?

5. (a) Write note on Foreign Exchange Markets and Rates. 7
- (b) The following information is available in respect of a firm : 7

Capitalization Rate ( $K_e$ ) – 10%

Earnings per Share (E) – ₹ 10

Assume rate of Return on Investments (r) (i) 15% (ii) 8% and (iii) 10%.

If Dividend payout ratio is 50%, what is the market price of shares? What should be the optimum payout ratio? (As per Walter Model)

**OR**

- (b) Discuss factors affecting the dividend policy of a company. Also discuss various types of dividend policy. 7

