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S.Y. M.B.A.

304 FIN : ADVANCED FINANCIAL MANAGEMENT

(2019 Pattern) (Semester - III) (Revised)

Time : 2½ Hours] *[Max. Marks : 50*

Instructions to the candidates :

1) *All questions are compulsory.*
2) *Figures to the right indicate full marks.*

Q1) Solve any five : **[5 × 2 = 10]**

a) What are the components of cash-flow statements?

b) Give any two reasons for companies to merge.

c) What is trade-off theory in capital structure?

d) Which two factors influence Dividend policy.

e) What do you mean by portfolio restructuring?

f) What are the two objectives of share buyback?

g) State any two cash management models.

h) State any two financial distress predictors.

Q2) Solve any two : **[2 × 5 = 10]**

a) What is LBO? Explain its advantages?

b) Explain in detail role of Factoring in receivables management.

c) Define Dividend policy & what are the factors affecting it.

P.T.O.

Q3) a) From the following balance sheet as on 31st March 2021 and 31st March 2022 of XYZ Ltd. you are required to prepare funds flow statement. **[10]**

Liabilities	2021 (Rs.)	2022 (Rs.)	Assets	2021 (Rs.)	2022 (Rs.)
Equity share capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
Redeemable preference Share capital	1,50,000	1,00,000	Land & Building	2,00,000	1,70,000
General Reserve	40,000	70,000	Plant	80,000	2,00,000
Profit & Loss	30,000	48,000	Debtors	1,60,000	2,00,000
Proposed dividend	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills payable	20,000	16,000	Cash in hand	15,000	10,000
Provision for taxation	40,000	50,000	Cash at bank	10,000	8,000
	6,77,000	8,17,000		6,77,000	8,17,000

Additional information :

i) Depreciation of Rs. 10,000 & Rs. 20,000 have been charged on plant and Land & Building respectively in 2022.

ii) A dividend of Rs. 20,000 has been paid in 2022.

iii) Income tax of Rs. 35,000 has been paid during 2022.

OR

b) i) Following information is available from the bocks of paramount Ltd. for the year ended 31st March 2022 :

I) Total sales for the year was Rs. 14,00,000.

II) Cash sales for the year was Rs. 12,00,000.

III) Rs. 8,50,000 were collected during the year from debtors.

IV) Salary of Rs. 1,50,000 remained outstanding during the year.

V) Company paid Rs. 9,60,000 to its creditors.

VI) During the year, company paid income-tax to the tune of Rs. 75,000.

Prepare cash from operating activities using direct method.

ii) Calculate EVA from the following information for the year ended 31st March, 2023.

Particulars	Amount (Rs.)
Average Debt	1500
Average Equity	28,660
Profit after tax before exceptional items	16,410
Interest after taxes	50
Cost of debt (Post tax)	7.72%
Cost of Equity	16.70%
Weighted Average Cost of Capital (WACC)	16.54%

Q4) a) ABC Ltd. has a share capital of Rs. 1,00,000 divided into shares of Rs. 10 each. It has a major expansion program requiring an investment of another Rs. 50,000. The management is considering following alternatives for raising this amount : **[10]**

- Issue of 5,000 equity shares of Rs. 10 each
- Issue of 5,000 12% preference shares of Rs. 10 each.
- Issue of 10% debentures of Rs. 50,000

The company present Earning Before Interest & Tax (EBIT) are Rs. 40,000 per annum subject to tax @ 50%.

You are required to calculate the effect of the above financial plan on the earning per share when :

i) EBIT continues to be the same even after expansion.

ii) EBIT increases by Rs. 10,000.

OR

b) i) An organization expects a net income of Rs. 1,00,000. It has Rs. 1,50,000, 10% debentures. The equity capitalization rate of the company is 12%. Calculate the value of the firm and overall capitalization rate according to the Net Income Approach (ignoring income-tax).

ii) If the debenture debt increased to Rs. 2,00,000, what shall be the value of the firm and the overall capitalization rate.

Q5) a) From the following information supplied to you, determine the market value or equity shares of a company as per Walter's Model : **[10]**

Earnings of the company	Rs. 5,00,000
Dividend paid	Rs. 3,00,000
Number of shares outstanding	1,00,000
Price-earning ratio	8
Rate of return on investment	15%

Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend pay-out ratio in this case.

OR

b) S3 Ltd. has present Annual sales of 20,000 units at Rs. 150 per unit. The variable cost is Rs. 100 per unit and the fixed cost is Rs. 1,50,000 p.a. The present credit period allowed by company is 1 month. The company is considering a proposal to increase the credit period to 2 months and 3 months and has made following forecasts :

Credit Policy	Existing Policy	Proposed Policy	
	1 month	2 months	3 months
Increase in Sales	–	15%	30%
% of bad debts	1%	3%	5%

There will be increase in fixed cost by Rs. 25,000 on account of increase of sales beyond 25% of present level. The company plans on a pre-tax return of 20% on investment in receivables. You are required to calculate the most beneficial credit policy for the company. Assume cash cost method for finding out investment in Debtors & receivables.

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