



DGG-010-001508

Seat No. \_\_\_\_\_

**B. B. A. (Sem. V) (CBCS) Examination**

May / June - 2015

**Advanced Financial Management - I**

**Faculty Code : 010**

**Subject Code : 001508**

Time :  $2\frac{1}{2}$  Hours]

[Total Marks : 70

**SECTION - I**

**1 MCQ**

**20**

- (1) Which of the following does not support irrelevance theory of capital structure decision?
  - (a) MM approach
  - (b) NOI approach
  - (c) NI approach
  - (d) All of the above
- (2) The cost and value of firm are
  - (a) Inversely related
  - (b) Directly related
  - (c) Not related
  - (d) Can't say
- (3) NI approach assumes \_\_\_\_\_ to be constant.
  - (a)  $k_e$  and  $k_i$
  - (b)  $k_o$  and  $k_i$
  - (c)  $k_e$  and  $k_o$
  - (d) None of the above
- (4) Which of the following is/are factor/s affecting capital structure decision in practice?
  - (a) Liquidity
  - (b) Profitability
  - (c) Nature of Industry
  - (d) All of the above
- (5) In the context of dividend policy decision, MM approach supports
  - (a) Walter
  - (b) Gordon
  - (c) Both (a) and (b)
  - (d) None of the above
- (6) Which of the following supports the idea - "A bird in hand is better than two in the bush"?
  - (a) Walter
  - (b) Gordon
  - (c) Modigliani & Miller
  - (d) None of the above

- (7) When dividend is paid in form of bonus share, it is known as
- (a) Bond dividend                      (b) Cash dividend  
(c) Stock dividend                      (d) Scrip dividend
- (8) Which of the following is/are benefit/s of stable dividend policy?
- (a) It fulfills requirements of institutional requirements  
(b) It facilitates raising additional fund  
(c) It builds confidence among investors  
(d) All of the above
- (9) Objective to hold cash balance to meet random and unforeseen fluctuations in cash flows is
- (a) Transaction motive                  (b) Precautionary motive  
(c) Speculative motive                  (d) Compensating motive
- (10) The objective of cash management is/are
- (a) To meet payment schedule  
(b) To minimize funds committed to cash balances  
(c) Both (a) and (b)  
(d) None of the above
- (11) Which of the following statements is not true for cash budget?
- (a) It is a device to help a firm to plan and control the use of cash.  
(b) It is a statement showing the estimated cash inflows and outflows over the planning horizon.  
(c) Cash budget highlights the cash position of a firm as it moves from one budgeting sub period to another.  
(d) None of the above
- (12) Disposal of fixed assets is
- (a) Operating cash inflow              (b) Operating cash outflow  
(c) Financial cash inflow              (d) Financial cash outflow
- (13) The cost on the use of additional capital to support credit sales is
- (a) Collection cost                      (b) Default cost  
(c) Delinquency cost                      (d) Capital cost
- (14) When credit policy is relaxed, average collection period
- (a) Increases                              (b) Decreases  
(c) Remains constant                      (d) Fluctuates

- (15) Which of the following is not the external source of obtaining credit information?
- (a) Bank references
  - (b) Trade references
  - (c) Credit bureau reports
  - (d) Past record of the company
- (16) If credit terms are: '4/15 net 45', 15 signifies
- (a) Credit period
  - (b) Cash discount
  - (c) Cash discount period
  - (d) Any of the above
- (17) When size of order increases
- (a) Ordering cost increases
  - (b) Carrying cost increases
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)
- (18) ABC technique solves
- (a) Order point problem
  - (b) Order size problem
  - (c) Classification problem
  - (d) None of the above
- (19) EOQ stands for
- (a) Economic Operation Quantity
  - (b) Economic Order Quantity
  - (c) Equal Order Quantity
  - (d) Equal Operation Quantity
- (20) The time that is normally taken in receiving delivery after placing orders with suppliers is called
- (a) Loss time
  - (b) Level time
  - (c) Limited time
  - (d) Lead time

### SECTION II: Descriptive Questions

- 1** Compare and contrast NI and NOI approaches of capital structure. **10**

**OR**

- 1** Discuss in detail MM approach of capital structure. **10**
- 2** Discuss Walter's model and Gordon's model of dividend policy decision in detail. **10**

**OR**

- 2** Discuss factors affecting dividend policy decision. **10**

- 3 Discuss elements of receivables management. **10**

**OR**

- 3 Silver Star Company has annual sales of Rs 48,00,000. The selling price per unit is Rs. 20 and the variable cost is 70 per cent of the selling price. The required rate of return on investment is 25 per cent, average cost, Rs 18 per unit; annual collection expenditure, Rs 1,00,000 and percentage of default, 6 per cent; credit terms 4 months. The company is considering the change in credit policy by following programme X or programme Y. **10**

	Programme	
	X	Y
Average collection period (months)	3	2
Annual collection expenditure (Rs)	1,50,000	3,00,000
Percentage of default (%)	4	2

Determine which collection programme should Silver Star Company follow?

- 4 Discuss in detail objectives of cash management. **10**

**OR**

- 4 The management of Shubhkamna Traders anticipates Rs. 25 lakh in cash outlays (demand) during the next year. The recent experience has been that it costs Rs. 40 to convert marketable securities to cash and vice versa. The marketable securities currently earn 10 per cent annual return. Find the total cost of managing cash according to Baumol model. **10**

- 5 Discuss in detail techniques of inventory control. **10**

**OR**

- 5 The Superstar Company has been buying a given item in lots of 1,200 units which is a six months' supply; the cost per unit is Rs 12; order cost is Rs 8 per order; and carrying cost is 25 per cent. You are required to calculate the savings per year by buying in economical lot quantities. **10**