



MAP-010-001508

Seat No. _____

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

October / November – 2016

Advanced Financial Management

Faculty Code : 010

Subject Code : 001508

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

[Total Marks : 70

- 1 Discuss Modigliani Miller approach of capital structure in detail. 14

OR

- 1 Comment on capital structure policies in practice. 14
- 2 Discuss the factors affecting dividend policy. Give the advantages and limitations of a stable dividend policy. 14

OR

- 2 (a) Explain Walter's dividend relevance model. 7
- (b) "Cash budget is the main tool of cash management". - Discuss. 7
- 3 Write short notes : (any two) 14
- (a) Motive for holding cash
- (b) MM hypothesis
- (c) ABC analysis
- (d) Five "C"s of the credit evaluation.
- 4 (a) What are the consequences of liberal *v/s* strict credit policy ? 7
- (b) What is inventory management? State the objectives of inventory management. 7

OR

- 4 (a) The management of the Gyandip Ltd. is currently considering the possibility of relaxing its standards for boosting up the sales volume. The proposals are as under : 7

	Existing Policy	Proposed Policy
(1) Credit period	Net 30 days	Net 45 days
(2) Bad debts	2% of total sales	3% of total sales
(3) Credit department expenses	10000	20000

The current sales volume is Rs. 3000000. It is expected that the relaxed policy will boost up sales 20%. The variables cost to sales ratio is 90%. The cost of capital of the company is 12%. 360 days in a year .

Evaluate the proposal and give your judgement.

- (b) The following information is received from JAY Co. Ltd. for the year 2015-16 : 7

Minimum usage..... 100 units per week

Maximum usage 300 units per week

Normal usage 200 units per week

Re-order quantity 1500 units

Delivery time 6 to 8 weeks

Calculate :

- (1) Re-order level
- (2) Minimum stock level
- (3) Maximum stock level
- (4) Safety stock.

5 From the following information of DHARMI LTD. prepare 14
cash budget for three months ending on 31-3-2016 :

(1) Cash and Bank balance on 1-1-2016 Rs. 40000

(2) Sales Actual and Budgeted :

October	Rs. 65000 (Actual)
November	Rs. 70000 (Actual)
December	Rs. 75000 (Actual)
January	Rs. 80000 (Budgeted)
February	Rs. 82000 (Budgeted)
March	Rs. 89000 (Budgeted)

(3) Purchases : Actual and Budgeted :

October	Rs. 40000 (Actual)
November	Rs. 48000 (Actual)
December	Rs. 45000 (Actual)
January	Rs. 48000 (Budgeted)
February	Rs. 40000 (Budgeted)
March	Rs. 50000 (Budgeted)

(4) Wages and Other expenses : Actual and Budgeted :

Month	Wages Rs.	Expenses Rs.
November (Actual)	15000	5000
December (Actual)	15000	6000
January (Budgeted)	18000	6000
February (Budgeted)	18000	8000
March (Budgeted)	20000	8000

(5) Advance payment of income tax Rs. 5000 in February.

(6) Purchase of plant of Rs. 10000 in January.

(7) Rent payable in advance Rs. 300.

(8) 10% of sales and purchases are on cash terms.

(9) Time lag :

Credit Sales	2 months
Credit Purchases	1 month
Wages	1/2 month
Expenses	1/4 month

OR

- 5 Krish Enterprises requires 90000 units of a certain item annually. It costs Rs. 3 per unit. The cost per purchase order is Rs. 30 and the inventory carrying cost is 20% per year. 14
- (a) What is the EOQ, if there is no quantity discount ? 4
- (b) What should the firm do if the supplier offers discount as below : 10

Order Quantity	Discount (%)
4500-5999	2
6000 and above	3
