PAW-010-001508 Seat No. ______

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

October / November - 2018

Advanced Financial Management - I

(Old Course)

Faculty Code : 010

Subject Code : 001508

Time : $2\frac{1}{2}$ Hours] [Total Marks : **70**

1 Discuss in detail MM approach to capital structure decision. **14**

OR

1 Explain factors determining capital structure in practice. **14**

2 Explain irrelevance of dividend policy decision using models advocated by Walter and Gordon. **14**

OR

2 Discuss factors affecting dividend policy decision of a firm. **14**

3 Write a note on objectives and elements of receivable management. **14**

OR

3 A Ltd. has at present annual sales level of 15,000 units at Rs. 400 per unit. The variable cost is Rs. 250 per unit and fixed cost amount to Rs. 4,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit period to 2 months and 3 months and has made the following estimates : **14**

	Existing	Proposed	
Credit period (month)	1	2	3
Increase in sales (%)	-	20	30
Bad debts (%)	2	3	4

There will be increase in fixed cost by Rs. 70,000 on account of increase in sales beyond 25 per cent of present level. The company plans a pre-tax return of 22% on investment in receivables.

You are required to calculate the most paying credit policy for the company.

4 Discuss motives for holding cash. Also explain significance of cash management. **14**

OR

4 Sunrise Limited requires Rs. 60 lakhs in cash to meet its transaction needs during the next three-month cash planning period. It holds marketable securities of an equal amount. The annual yield on these marketable securities is 20%. The conversion of these securities into cash entails a fixed cost of Rs. 6,000 per transaction. Using Baumol model, compute the amount of marketable securities converted into cash per order. Assuming Sunrise Limited can sell its marketable securities in any of the five lot sizes: Rs. 3,00,000; 6,00,000; 12,00,000; 15,00,000 and 30,00,000, prepare a table indicating the economic lot size using numerical analysis. **14**

5 Discuss any two inventory control techniques in detail. **14**

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. **14**