

have two alternative time frames for recognition of revenue, It could be recognized at the time of advance billing or when the payment is received from the client. However since in our case we usually have a contract with our client for specified advertising campaigns, we should follow the first method. We should recognize the revenue as soon as an advance billing is made. When we make an advance billing, we establish accounts receivable with clients and record estimated liability to the media and commission campaigns. We also estimate expenses and establish a liability for these estimated expenses related to the client's billings. The final adjustments are made when the complete process of the advertising campaign is over and the final statements are sent to the clients".

After listening to the finance manager the managing director wondered as to what would be the effect on reported income, if the agency decided to adopt first of the two alternatives suggested by the Finance Manager.

Required : Which method of revenue recognition will you recommend to Sangam Advertising Agency. Explain the reason for your recommendation.

## **MBA 3711**

**M.B.A. DEGREE EXAMINATION, JUNE 2007.**

**Third Semester**

**Finance**

**Paper XI — STRATEGIC FINANCIAL MANAGEMENT**

**Time : Three hours**

**Maximum : 100 marks**

**PART A — (5 × 6 = 30 marks)**

**Answer any FIVE out of the following.**

1. Explain the components of financial strategy.
2. What are the basic investment decisions?
3. Distinguish between risk and uncertainty.
4. What are the forms of expansion?
5. Distinguish between merger and amalgamation.
6. How does leasing increase a firm's borrowing capacity?
7. Discuss the nature of bond covenants.
8. What is the effect of dilution on the value of warrant?

**PART B — (5 × 10 = 50 marks)**

Answer any FIVE of the following.

9. Explain the important steps involved in strategic financial planning of a large scale unit.
10. Discuss the risk-adjusted discount method.
11. Discuss the procedure for simulation analysis.
12. Explain the dubious reasons for mergers.
13. Discuss the common elements of organisational restructuring.
14. Why is leasing considered as a financing alternative to borrowing rather than as an alternative to financing the issuance of common stock?
15. Discuss the factors that influence the value of a warrant.
16. Discuss the modern finance explanations for the popularity of warrants and convertible debentures.

**PART C — (1 × 20 = 20 marks)**

**Compulsory.**

17. Case study.

**SANGAM ADVERTISING AGENCY (SAA)**

SAA has a large number of clients for whom it handles advertising campaigns. The agency's task involves developing advertising copy for layout, contacting various media for proper spacing of ads and doing media planning for the client. As soon as a request is received from a client, the accounts executive of the agency meets the concerned persons in the clients organization and prepares a detailed plan of action. Thereafter an invoice is sent to the client that shows the estimated media cost and the commission of the agency. The agency charges a commission of 20% of the media cost. The practice of sending an advance billing is quite common in the advertising industry. It has been the experience of the agency that the later adjustments of the advance billings are minor. The agency insists that clients make the payments to the agency as soon as the advance billing is submitted and it has been able to persuade the clients to do so. Thus, quite often the receipt of cash occurs much prior to the actual release of advertisement.

The managing director Mr. Holliok of the agency was concerned as to how the income should be measured for a particular year. He sought the advice of his finance manager. The finance manager in his discussions with the managing director said "In our kind of business, we