

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

# SM-104

September-2020

B.B.A., Sem.-VI

## CC-314 : Advanced Financial Management

Time : 2 Hours]

[Max. Marks : 50

- Instructions :** (1) All Questions in Section – I carry equal marks.  
(2) Attempt any TWO questions in Section – I.  
(3) Question 5 in Section – II is Compulsory.

### Section – I

1. (A) Nirali paints Ltd. is considering the purchase of any of the following machines. Suggest which one would be more beneficial. Depreciation method applicable is straight line method.

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Cash outflow at year end	Machine A (₹)	Machine B (₹)
Year 0	5,00,000	4,50,000
Year 1	25,000	–
Year 2	–	30,000
Year 3	15,000	–
Estimated life of all	5 years	5 years

Cash Flow After Taxes (Corporate taxes 40%)

CFAT	Machine A (₹)	Machine B (₹)
Year 1	1,80,000	1,35,000
Year 2	1,25,000	1,35,000
Year 3	1,90,000	1,35,000
Year 4	1,00,000	1,35,000
Year 5	95,000	1,35,000

Estimate these proposal on the basis of Net Present Value assuming a 15% cost of capital.

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P.T.O.

- (B) One project of a company is doing poorly and is being considered for replacement. Three mutually exclusive projects A, B and C have been proposed. The projects are expected to require ₹ 2,40,000, have an estimate life of 5 years, 4 years and 3 years respectively and no salvage value. The company's required rate of return is 14%. The anticipated profits after depreciation and taxes for the three projects are as follows :

Year	Project A	Project B	Project C
	(₹)	(₹)	(₹)
1	62,000	1,30,000	1,12,000
2	72,000	1,05,000	1,55,000
3	92,000	86,000	58,000
4	1,12,000	64,000	—
5	1,68,000	—	—

Find the present value at 14% rate of return and suggest which project should be accepted.

2. (A) Prepare a statement of working Capital requirement from the following information :

	Per Unit
	(₹)
Raw materials	18
Direct Labour (40% Variable)	15
Overheads (20% Variable)	15
Total Cost	48
Profit	06
Selling price	54

The sales for the year ending on 31<sup>st</sup> dec. 2019 was ₹ 12,96,000. The assets as on 31-12-2019 were as under :

	(₹)
Raw materials (at cost)	96,000
Work-in-process (at prime cost)	54,000
Finished goods (at total cost)	1,92,000
Debtors	2,88,000

The suppliers of raw material allow 2 months credit period. The payment period of wages and overhead is 1 month.

- (B) Determine EVA from the following data of Bansi Ltd. : 10

	(₹ in Crore)
EBIT	36
Less: Interest on 12% Debt.	06
Earnings before taxes	30
Less: Corporate taxes (30%)	09
Earnings after taxes	21
Less: Dividend on 13% Preference share Capital (Rs. 30 crore)	3.9
Earnings for equity share holders	17.1
Owner funds (having cost of 16%)	80.0

3. (A) Discuss in detail the NI and NOI approach of capital Structure. 10
- (B) Explain features of appropriate capital structure. 10
4. (A) Highlight various objectives for corporate restructuring. 10
- (B) Discuss Buy-out in detail. 10

Section – II

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5. Do as directed : (Attempt any Ten)

- (1) The cost of new machine is treated as \_\_\_\_\_.  
(Cash Inflow, Cash outflow, Working capital)
- (2) Working capital required is treated as \_\_\_\_\_.  
(Cash Inflow, Cash outflow, Cost of capital)
- (3) Net present value method considers \_\_\_\_\_ values in calculation of Inflow.  
(Profit after tax, Cash flow after tax, Cash flow before depreciation and tax)
- (4) Capital Budgeting decisions are considered as \_\_\_\_\_ decisions.  
(Short-term, Long term, Future)
- (5) Capital budgeting decisions involve huge amount of risk due to \_\_\_\_\_.  
(Money factor, Time factor, Human factor)
- (6) Current Assets – Current Liabilities = \_\_\_\_\_.  
(Gross Working Capital, Net Working Capital)
- (7) Working Capital is used to finance fixed assets operations. (True, False)
- (8) Give full form of NOPAT.
- (9) EVA is a management tool to focus managers on the impact of their decision in \_\_\_\_\_ shareholder's wealth. (maintaining, increasing)
- (10) Sale of goods on cash basis \_\_\_\_\_ working capital requirement.  
(increases, reduces)
- (11) Business capital is broadly divided into two groups: \_\_\_\_\_ and \_\_\_\_\_.  
(Fixed and Working, Tangible and intangible)

- (12) Modigliani Miller approach is identical with the \_\_\_\_\_ approach.  
(Net Operating Income, Net Income)
- (13) One of the assumptions in MM approach is that there is no transaction cost.  
(True, False)
- (14) Capital Structure is optimum when market value of equity shares \_\_\_\_\_.  
(Changes, does not change)
- (15) Vertical merger joins 2 entities that compete with each other but exist in same supply chain. (True, False)
- (16) General level of Interest rate is one of the factors affecting Capital Structure.  
(True, False)
- (17) Long-Term loan is considered as \_\_\_\_\_ capital,  
(Owned, Debt)
- (18) Under Franchising, Franchisee grants another party the right to use its trade name.  
(True, False)
- (19) When an acquirer takes over the control of the target company it is known as Takeover. (True, False)
- (20) "Reverse Merger" is also known as \_\_\_\_\_.  
(Back door listing, Demerger)