

**AF-105**

August-2021

BBA., 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 2 questions in Section - I.  
 (3) Question 5 in Section - II is compulsory.

**SECTION - I**

1. (A) Metro Agro 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. (10)

	Machine A	Machine B
Cash outflow at year end `		
Year 0	6,00,000	6,50,000
Year 1		
Year 2	42,000	48,000
Year 3		
Estimated life of all	5 years	5 years

Earnings after depreciation and taxes (Corporate taxes 50%)

	Machine A	Machine B
PAT		
Year 1	86,000	
Year 2		1,00,000
Year 3	1,08,000	1,30,000
Year 4	1,52,000	1,44,000
Year 5	1,60,000	1,70,000
Estimated life	5 years	5 years
Salvage value	40,000	50,000

Estimate these proposal on the basis of Net Present Value assuming a 15% cost of capital. There is no salvage value on the additional machinery and they are bought at the end of the year.

(B) Mr. Shankar a financial manager of Mahek Shoes company Ltd. is considering an investment project costing ₹ 4,00,000 and it will have a scrap value of ₹ 20,000/- at the end of 5 years life. The transportation charges are expected to be ₹ 50,000/-. The requirement of working capital will be ₹ 10,000/-. If the project is accepted, spare-parts inventory of ₹ 20,000/- must also be required for maintenance. It is estimated that spare-parts will have an estimated scrap value after 5 years at 50% of their initial cost. (10)

Annual revenue from the project is expected to be ₹ 3,50,000/- and its maintenance expenses are estimated to be ₹ 1,50,000/-.

Depreciation and taxes for each of the 5 years will be as under :

Year	Depreciation	Taxes
1	1,45,000	24,000
2	86,000	45,000
3	65,000	54,000
4	44,000	62,000
5	2,000	80,000

Evaluate the project at 12% rate of interest by Net present value method.

2. (A) Manomay creation wants a project to be put into operation with effect from 1 January 2021 and the management desires to know the quantum of working capital required to finance the project. The company management provide following information. (10)

Production during 2021 is expected to be 1,00,000 units. The percentage of production cost to selling price has been as under :

Material 50%

Labour 20%

Overheads 10%

Following further particulars are available :

- (1) Raw materials are expected to remain in stores for the average period of one month before issue to production.
- (2) Finished goods are to stay in the warehouse for two months on the average before being sold.
- (3) Each unit of production will be in process for one month on the average.
- (4) Credit allowed by creditors in respect of purchase of raw materials is 1 month.
- (5) Debtors are allowed two months' credit from the date of the sale of goods.
- (6) Selling price is fixed at ₹ 9/- per unit.

Prepare an estimate of Working Capital Requirement from the above information

- (B) Determine EVA from the following data of Anand Cooling Ltd. (10)

(` in crore)

Sales revenue		120
Less: cost of goods sold	42	
Administrative expenses	10	
Selling Expenses	18	
Interest	20	90
Earnings before taxes		30
Less: Taxes (0.40)		12
Earnings after taxes		18

The firms weighted average cost of total capital employed (consisting of equity and debt of ` 180 crores) is 12%; its cost of equity is 16%.

3. (A) Discuss in detail the NI approach of Capital Structure. (10)  
 (B) Discuss in detail the NOI approach of Capital Structure. (10)
4. (A) Explain the process of winding of the company by its Creditors' and duties of liquidator. (10)  
 (B) Define Strategic Alliance (SA) and name some forms of SA. Give advantages and disadvantages of Strategic Alliance in detail. (10)

#### SECTION - II

5. Do as directed : (Attempt any 10) (10)
- (1) The cost of additional machine is treated as \_\_\_\_\_.  
 (a) Cash Inflow (b) Cash outflow (c) Working capital
- (2) The working capital mentioned in capital budgeting is treated as  
 (a) Cash outflow (b) Cash inflow (c) Cost of capital
- (3) To find the Net present value, cost of capital is applied to \_\_\_\_\_ values.  
 (a) Cash Inflow (b) Cash outflow  
 (c) Both Cash inflow and outflow (d) None of these
- (4) Capital budgeting decisions involve huge amount of risk due to \_\_\_\_\_.  
 (a) Money factor (b) Time factor (c) Human factor
- (5) Net working Capital = \_\_\_\_\_  
 (a) Current Assets - Current Liabilities (b) Current Assets + Current Liabilities  
 (c) Current Assets ÷ Current Liabilities (d) Current Assets × Current Liabilities

- (6) Formula of NOPAT is \_\_\_\_\_.
- (a) EBIT - Taxes (b) EBIT + Taxes  
(c) EBT - Taxes (d) EBT + Taxes
- (7) Economic Value Added is a management tool to focus managers on the impact of their decision in \_\_\_\_\_ shareholder's wealth.
- (a) decreasing (b) maintaining (c) increasing
- (8) Undrawn profit \_\_\_\_\_ working capital requirement.
- (a) Increases (b) Reduces (c) Neither increases nor reduces
- (9) Modigliani Miller approach is identical with the \_\_\_\_\_ approach.
- (a) Net Operating Income (b) Net Income  
(c) None of these
- (10) The assumption/s in MM approach is/are?
- (a) The dividend payout ratio is 100% (b) No corporate taxes  
(c) Both (a) and (b) options above (d) None of the above
- (11) As per Net Income approach method of capital structure with the increase in leverage \_\_\_\_\_.
- (a) Overall cost of capital reduces (b) Market value of the firm increases  
(c) Both (a) and (b) options above (d) None of the above
- (12) Horizontal merger means two entities that sell \_\_\_\_\_.
- (a) Similar products to the same markets  
(b) Products in completely different markets  
(c) Products in two different niches of the same markets.  
(d) None of the above
- (13) Which of the following is/are method/s of divestitures ?
- (a) Demerger (b) Equity carve out  
(c) Partial Sell-off (d) All of the Above
- (14) Which of the following is/are the reason/s for takeover ?
- (a) Acquire the skills and strength of another firm  
(b) Get the benefits of economies of scale  
(c) To opt a more dominant position in national or international market.  
(d) All of the above
- (15) "Reverse Merger" is also known as \_\_\_\_\_.
- (a) Back door listing (b) Demerger  
(c) Both (a) and (b) options above (d) None of the above
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