

Seat No. : _____

AL-109

April-2022

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 2 questions in Section - I.
(3) Question 5 in Section II is Compulsory.

SECTION - I

1. (A) Darshan Ltd. is considering the purchase of a new machine, which will carry out operations so far performed by labour. The Depreciation method applicable is reducing balancing method at 10%. 10

	Machine - X
Estimated life of Machine	6 years
Cost of Machine	60,000
Estimated cost of indirect materials	2,400
Estimated savings in scrap	4,000
Estimated savings in Direct wages	36,000
Additional cost of maintenance and supervision	7,600

Corporate tax applicable is 50%.

Estimate this proposal on the basis of Net Present Value assuming a 12% cost of capital. There is no salvage value for the machinery.

- (B) A company is considering purchase of new machine, with a view to increase its production capacity. The data relating to two machines are as follows: 10

	Machine A	Machine B
Initial Investment	7,000	7,500
Net Earnings after depreciation and taxes		
At the end of 1st year	2,250	1,626
At the end of 2nd year	2,250	1,626
At the end of 3rd year	1,250	1,626
At the end of 4th year	250	1,626

Additional Information :

- (1) The life of both the machines is expected to be four years.
(2) Depreciation is to be charged on both the machines on Straight line method.
(3) Evaluate the project at 12% rate of interest by Net present value method.

2. (A) From the information of NP Ltd. prepare Statement of Working Capital Requirement. 10

Particulars		Per Unit
Raw materials		300
Direct labour		120
Overhead expenses		<u>180</u>
	Total Cost	600
	Profit	<u>200</u>
	Selling price	800

Additional Information :

- (1) Estimated output is 1,92,000 units yearly.
 - (2) Raw materials are in stock on average for 1 month.
 - (3) Raw materials are in process on an average for half a month.
 - (4) Finished goods are in stock on an average for 1 month.
 - (5) 20% of the output is sold against cash.
 - (6) Credit allowed to debtors is 1 month.
 - (7) 10% of the total raw materials are purchased against cash.
 - (8) Credit allowed by suppliers is 1 month.
 - (9) Lag in payment of wages is 1 week.
 - (10) Lag in payment of overhead expenses is 2 weeks.
 - (11) Company believes to keep ₹ 1,00,000 cash on hand which includes ₹ 50,000 bank overdraft, which is still not utilized.
 - (12) Consider 48 weeks for a year and 4 weeks for a month.
 - (13) 15% safety margin is to be maintained. Production, wages and overhead expenses accrued evenly throughout the year.
- (B) Determine EVA from the following data of Aerifirm Ltd. 10
(₹ in crore)

Sales revenue	500
Less: Operating cost	<u>300</u>
Earnings before Interest and Tax	200
Less: Interest cost	<u>12</u>
Earnings before taxes	188
Less: Taxes (40%)	<u>75.2</u>
Earnings after taxes	112.8

The firm's existing capital consists of ₹ 150 crores equity funds having 15% cost and ₹ 100 crores 12% debt. Determine the economic value added during the year.

3. (A) Enumerate the Net Income approach of capital structure. 10
(B) 'Modigliani-Miller approach is based on unrealistic assumptions.' Discuss in detail. 10

4. (A) Discuss mergers in detail and highlight its types. 10
(B) Explain various objectives for Corporate restructuring. 10

SECTION - II

5. Do as directed (attempt any 10) 10
- (1) The project concerning the purchase of fixed assets is known as:
(a) Cash Inflow project (b) Fund flow project
(c) Replacement project (d) Capital expenditure project
- (2) Give Full form of NPV _____.
(a) Net Present Value (b) Net Price Volume
(c) Net Profit Volume (d) None of these
- (3) For long term decision making, which method is the best guide ?
(a) NPV method (b) ARR method
(c) Payback method (d) None of these
- (4) Which one of the following formula is correct for depreciation of SLM ?
(a) $\text{Investment} + \text{Scrap value} / \text{expected life}$
(b) $\text{Investment} - \text{Scrap value} / \text{expected life}$
(c) $\text{Investment} - \text{Liability} / \text{expected life}$
(d) None of these
- (5) Gross working Capital = _____
(a) Current Assets
(b) Current Liabilities
(c) Current Assets - Current Liabilities
(d) Current Assets + Current Liabilities
- (6) What is the formula of NOPAT _____.
(a) EBIT - Taxes (b) EBIT + Taxes
(c) EAT - Taxes (d) EBT + Taxes
- (7) What is full form of MBI ?
(a) Management Buy Investment (b) Management Buy Input
(c) Management Buy In (d) None of above
- (8) Undrawn profit _____ working capital requirement.
(a) Increases
(b) Reduces
(c) Neither increases nor reduces

- (9) In the following circumstances Demerger is Preferable:
- (a) Division of Family Managed Business
 - (b) Management Buy Outs
 - (c) Restructuring of an existing business
 - (d) All of the above
- (10) Which one of the following are include in modes of winding up ?
- (a) Compulsory winding up
 - (b) Voluntary winding up
 - (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) "Reverse Merger" is also known as ____.
- (a) Back door listing
 - (b) Demerger
 - (c) Both (a) and (b) options above
- (13) Horizontal merger means two entities that sell ____.
- (a) similar products to the same markets
 - (b) products in completely different markets
 - (c) products in to different niches of the same markets.
 - (d) None of the above
- (14) M-M approach Published in ____.
- (a) 1950
 - (b) 1958
 - (c) 1980
 - (d) 1981
- (15) 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
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