

## B.B.A. Sem-6 Examination

## CC 314

## (1) Adv. Financial Management

Time : 2-00 Hours]

October 2021

[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] Yatri Ltd. wants to purchase one of the two alternative machines, each costing Rs. 10,00,000. [10]  
 Estimated life of each machine is 5 years. There is no scrap value. Expected rate of return is 10%. Expected profit after taxes (PAT) are as follows:

Year	Machine X	Machine Y
1	120000	80000
2	140000	160000
3	80000	280000
4	520000	600000
5	420000	160000

Advise the company regarding the selection of the machine as per Net Present Value method. Present value of Re.1 for first five years at 10% discount rate is as under:  
 0.909, 0.826, 0.751, 0.683, 0.621

- [B] SBL Limited is engaged in the manufacture of power intensive products. As part of its diversification plans, the company proposed to put up a windmill to generate electricity. [10]  
 The details of the scheme are as follows:
1. Cost of the windmill, Rs. 300 lakhs.
  2. Cost of land, Rs. 15 lakhs.
  3. Subsidy from state government to be received at the end of first year of installation, Rs. 15 lakh.
  4. Price of electricity will be Rs. 2.25 per unit in year 1. This will increase by Re. 0.25 per unit every year till year 7. After that, it will increase every year by Re. 0.50 per year till year 10.
  5. Maintenance cost will be Rs. 4 lakh in year 1 and the same will increase by Rs. 2 lakh every year.
  6. Estimated life, 10 years.
  7. Cost of capital, 15 per cent.
  8. Residual value, nil. However, land value will go up to Rs. 60 lakh, at the end of year 10.
  9. Depreciation will be 100 per cent of the cost of the windmill in year 1 and the same will be allowed for tax purposes.
  10. As windmills are expected to work based on wind velocity, the efficiency is expected to be on an average 30 per cent. Gross electricity generated at this level will be 25 lakh units per annum; 4 per cent of which will be committed to the state electricity board as per the agreement.
  11. Tax rate, 35 per cent.

From the above information, you are required to calculate the net present value. Ignore tax on capital profits. Use present value up to three digits.

E 545-2

2. [A] Proforma cost sheet of a company provide the following particulars. [10]

<i>Elements of cost</i>	<i>Amount per Unit</i>
Materials	50%
Direct labor	15%
Overheads	15%

The following further particulars are available:

- It is proposed to maintain a level of activity of 6,00,000 units.
- Selling price is Rs. 20 per unit.
- Raw materials are expected to be in stores for an average of 2 months.
- Materials will be in process, an average of one month.
- Finished goods are required to be in stock for an average of 2 months.
- Credit allowed to debtors is three months.
- Credit allowed to supplier is two months.

- [B] Loft Co. Ltd. is planning to manufacture a product developed by its R & D department. [10]  
The new product will be sold at Rs. 500 per unit. The cost of production is estimated as follows:

	(% of Selling Price)
Raw Material	60
Direct Labour	20
Overheads	10

Initially, 120000 units will be sold in a year. The credit sales are 70% of the total sales. Credit to be allowed to customer will be two months. Other relevant details are given below:

Raw Material Stock Requirement	1 Month
Processing Time	Half month (Raw material 100%, Direct Labor and Overheads 50%)
Finished Goods Stock	2 Months
Credit allowed by suppliers of Raw Material	Half month
Time gap in payment of wages and overheads	Half month

Cash and bank balance is 10% of Net Working Capital inclusive of cash. Prepare a statement showing the amount of working capital required by the company. You may make assumptions that may be necessary.

3. [A] What is Capital Structure? Explain the factors affecting capital structure. [10]  
[B] Explain the NOI approach of Capital Structure. [10]
4. [A] Explain the concept of Reverse Merger and Franchising [10]  
[B] Give the meaning of Corporate Restructuring and Financial Restructuring. Discuss "Mergers" as a technique of corporate restructuring. [10]

E 545-3

**Section II**

5. Do as directed (Attempt any 10 out of 15):

[10]

- (1) Expenses paid in advance are \_\_\_\_\_ to current assets while estimating the working capital requirements. (added, deducted, multiplied, divided)
- (2) A company would require \_\_\_\_\_ working capital if the operating cycle is very long. (less, more, no, any)
- (3) Saving in respect of a cost is treated in capital budgeting as \_\_\_\_\_. (an inflow, an outflow, not a flow, extra flow)
- (4) Variable working capital is that part of working capital which is required to meet the seasonal needs as well as special needs of the business. (True/False)
- (5) \_\_\_\_\_ is not a capital budgeting decision. (Expansion programme, Acquisition of long term assets, Replacement of existing asset, Inventory control)
- (6) Capital budgeting decisions are based on \_\_\_\_\_. (Incremental cash flows, Incremental profit, Incremental assets, Decremental assets)
- (7) \_\_\_\_\_ method takes in account the time value of money. (Payback period method, Accounting rate of return method, Net present value method)
- (8) Capital Budgeting is a part of \_\_\_\_\_. (Investment Decision, Working Capital Management, Marketing Management, Capital Structure)
- (9) Traditional approach is the \_\_\_\_\_ approach. (Positive, Negative, Intermediate)
- (10) A general rules for managers to follow is to set the firm's capital structure such that the firm's value is minimized. (True/False)
- (11) Higher debt is better for net income approach. (True/False)
- (12) The ultimate conclusions of NI approach and the NOI approach are same. (True/False)
- (13) The public sale of common stock in a subsidiary in which the parent usually retains majority control is called \_\_\_\_\_. (A pure play, A spin-off, A partial sell-off, An equity carve-out)
- (14) A transaction or a series of transactions that convert a publicly traded company into private entity is called \_\_\_\_\_. (Liquidation, Going Private, Sell-off, Equity Carve Outs)
- (15) \_\_\_\_\_ involves joining of forces or resources for a specified or for infinite period for achieving the common objectives of two or more firms. (Divestitures, Franchising, Strategic Alliance, Mergers)

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