Seat No. : _______________

AF-105

April-2023

B.B.A., Sem.-VI

314 : Advanced Financial Management

Time : 2½ Hours] **[Max. Marks : 70**

1. A product is currently manufactured on a machine that is not fully depreciated for tax purpose and has a book value of ₹ 70,000. It was purchased for ₹ 2,10,000 twenty years ago. The costs of the product are as follows : **14**

Variable cost per unit	₹ 52.50
Fixed cost per unit	₹ 17.50
Total	₹ 70.00

In the past year 10,000 units were produced. It is expected that with suitable repairs, the old machine can be used for indefinite time in future. The repairs are expected to average ₹ 75,000 per year.

An equipment manufacturer has offered to accept the old machine as a trade-in for a new equipment. The new machine would cost ₹ 4,20,000 before allowing ₹ 1,05,000 for the old equipment. The product costs associated with the new machine are as follows :

Variable cost per unit	₹ 42.00
Fixed cost per unit	₹ 23.00
Total	₹ 65.00

The fixed overhead costs are allocations of other departments plus the depreciation of the equipment.

The old machine can be sold now for ₹ 50,000 in the open market. The new machine has an expected life of 10 years and salvage value of ₹ 20,000 at that time. The current income tax rate is 40%. For tax purposes cost of new machine and the book value of the old machine may be depreciated in 10 years. The cost of capital is 10%. It is expected that the future demand of the product will stay at 10,000 units per year.

Should the new equipment be acquired ? Your answer should be based on NPV calculations.

Notes : (i) Present value of annuity of ₹ 1.00 at 10% rate of discount for 9 years is 5.759.

(ii) Present value of ₹ 1.00 at 10% rate of discount, received at the end of 10^{th} year is 0.386.

OR

(A) (1) Explain Accounting Rate of Return Method and write its benefits and limitations in detail. **7**

(2) A company is considering purchase of a new machine with a view to increase its production capacity. The data relating to two machines are as follows : **7**

	Machine – A (₹)	**Machine – B (₹)**
Initial investment	7,000	7,500
Net Earnings after depreciation and taxes :		
At the end of 1st year	2,250	1,625
At the end of 2nd year	2,250	1,625
At the end of 3rd year	1,250	1,625
At the end of 4th year	250	1,625

(1) The economic life of both machines is expected to be four years.

(2) Depreciation is to be charged on both the machines on straight line method.

(3) The rate of return on capital is to be considered at 10%.

(4) The present value of ₹ 1 at the discount rate of 10% is as under :

1st year 0.91 2nd year 0.83 3rd year 0.75 4th year 0.68

Find out the profitability by following methods :

(1) Net present Value

(2) Profitability Index

(B) Attempt any **four** : **4**

(1) Internal Rate of Return Method is also known as 'time adjusted rate of return method" (True/False)

(2) If the profitability index is less than 1, then the project is not acceptable. (True/False)

(3) What is the formula of Profitability Index ?

(4) Pay-back period is the most popular and simplest methods of evaluating investment proposals. (True/False)

(5) What is the formula to calculate Average Rate of Return Method ?

(6) Capital budget is a presentation of estimates of expected capital expenditures of the future. (True/False)

2. (A) The following are the particulars of a Company **7**

Estimated sales : ₹ 12,00,000

Particulars	per unit ₹
Materials	6.24
Labour	8.32
Overheads	8.32
Total cost	22.88
Profit	1.12
Sale price	24.00

Other estimates :

(1) Stock : materials - three weeks, finished goods -two weeks.

(2) Work-in-process stock - three weeks.

(3) Creditors allow five weeks credit. Debtors are allowed eight weeks credit.

Assuming even production during the year, prepare a statement of working capital.

OR

(A) Prepare a statement of working Capital requirement from the following information : **7**

	Per Unit ₹
Raw materials	90
Direct labour	40
Overheads	75
Total cost	**205**
Profit	60
Selling price	265

(1) Estimated output 1,56,000 units (yearly).

(2) Raw materials are in stock on an average for one month.

(3) Materials are in process on an average for two months.

(4) Finished goods are in stock on an average for one month.

(5) Credit allowed by suppliers is one month.

(6) Credit allowed by customers is 2 months.

(7) Lag in payment of wages is 1½ weeks.

(8) Lag in payment of overhead is one month.

(9) All sales are on credit.

(10) Cash in hand and Bank balance to be kept is ₹ 60,000.

(11) Production is carried evenly throughout the year.

(12) Wages and overheads accrued evenly throughout the year.

(13) A period of 4 weeks is equivalent to a month.

(B) Explain the concept of Economic Value Added. **7**

OR

(B) Following is income statement of New Ltd. for the current year : **7**

	(₹ in lakh)
Sales revenue	500
Less : Operating costs	300
Less : Interest costs	12
Earnings before taxes	188
Less : Taxes (0.40)	75.2
Earnings after taxes	112.8

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

(C) Attempt any **three** : **3**

(1) Receivables and cash are current assets. (True/False)

(2) Seasonal working capital is a permanent working capital. (True/False)

(3) Cost of equity funds = __________

(4) EVA is a management tool to focus managers on the impact of their strategic decisions only. (True/False)

(5) What is Special working capital ?

3. (A) Discuss NI approach in detail. **7**

(B) Explain the traditional approach in detail. **7**

OR

(A) Explain the NOI approach of capital structure. **7**

(B) Discuss the assumptions of M-M approach in detail. **7**

(C) Attempt any **four** : **4**

(1) Business capital is broadly divided into two groups - tangible and intangible. (True/False)

(2) EVA is a management tool to focus managers on the impact of their decisions in maintaining shareholder's wealth. (True/False)

(3) Modigliani-Miller approach is identical with the net income approach.(True/False)

(4) NOI approach implies that whatever may be the change in capital structure, the overall Value of the firm is not affected. (True/False)

(5) Reserves and surplus are called retained earnings. (True/False)

(6) Traditional approach is the positive approach. (True/False)

4. Explain any seven techniques of Corporate Restructuring in detail. **14**

OR

(A) Explain reverse bid and reverse merger in detail. **7**

(B) Define Corporate Restructuring and explain its reasons in brief. **7**

(C) Attempt any **three** : **3**

(1) What is merger ?

(2) Reverse merger is also known as Demerger. (True/False)

(3) Under Franchising, Franchise grants another party the right to use its trade name. (True/False)

(4) Equity carve out is means of enhancing their exposure to a riskier line of business. (True/False)
