0110N622

Candidate's Seat No :________

BBA Sem.-6 (Rep) Examination

CC 314

Adv Financial Management

October-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Q-1 [14]

An existing company has a machine which has been in operation for 2 years; its estimated remaining useful life is 5 years with no salvage value in the end. Its current market value is ₹ 30,000/-. The company management is considering a proposal to upgrade to a new machine which gives improved performance. Some relevant information is given below:

Particulars	**Existing Machine**	**New Machine**
Purchase price (₹)	72,000	1,15,000
Estimated life (in years)	7	5
Salvage value (₹)	0	0
Annual operating hours	1200	1200
Selling price per unit (₹)	5.4	5.4
Material per unit (₹)	1.4	1.4
Output per hour (Units)	18	32
Labour cost per hour (₹)	10	16
Consumable stores per year (₹)	2500	1500
Repairs and maintenance per year (₹)	3500	2500
Working capital (₹)	20000	35000
Income-tax rate (%)	40	40

Advice the management whether to replace the existing machine or not? Assume that required rate of return is 12% and the company uses reducing balancing method of depreciation at 15% as part of all its block of assets.

OR

Q-1 [A] Teams Pvt. Ltd. is considering the purchase of the following machine: [07]

Year	**Cash outflow at the year end**	**Earnings (after depreciation and taxes)**
Year 0	₹ 6,25,000	-
Year 1	0	₹ 65,000
Year 2	0	₹ 82,500
Year 3	₹ 35,500	₹ 87,500
Year 4	0	₹ 89,500
Year 5	0	₹ 90,500

Salvage value of the machine bought initially is expected to be ₹ 40,000. No salvage value is expected on add-on machine installed at the end of 3rd year. The working capital required for the machine is ₹ 15,000. The company follows the Straight line method of depreciation, Evaluate the proposal on the basis of Net present value assuming 15% cost of capital.

[B] XYZ Ltd. is considering a project requiring a capital of ₹ 2,50,000/- [07]

Forecasted annual income after depreciation but before tax is as under:

Year	PBT (₹)
1	1,05,000
2	91,500
3	1,00,500
4	1,15,000
5	97,500

(P.T.O)

N 622-2

Depreciation may be taken at 10% reducing balancing method and the tax slab applicable to the company is 55% on net profit.
You are required to evaluate the project on the basis of net present value method assuming the cost of capital at 12%.

[14]

Q-2 Riddhi Enterprise Ltd. has prepared its annual budget, relevant details of which are reproduced below:

1) Sales (83200 units) 25% cash sales and balance on credit	₹ 45,76,000
2) Raw material cost	60% of sales value
3) Labour Cost	₹ 5 per unit
4) Variable overheads	₹ 2 per unit
5) Fixed overheads (including Rs. 60,000 as depreciation)	₹ 4,50,000
6) Budgeted stock level: Raw materials Work-in-progress (Material 100%, Labour and overheads 50%) Finished goods	 6 weeks 2½ week 3 weeks
7) Debtors are allowed credit of	4 weeks
8) Creditors allow credit of	3 weeks
9) Lag in payment of overheads	2 weeks
10) Lag in payment of wages	2 weeks
11) Cash in hand required	₹ 65,000

Prepare the Working Capital Budget for a year for the company. One year is assumed to be 52 weeks and one month is assumed to be 4 weeks. Take debtors at cost of sales.

OR

[7]

Q-2 [A] The cost/price structure of Kamal Ltd. is extracted from its annual accounts for the year ended on 31st March 2023. The production is undertaken in single shift.

	Per Unit
	₹
Materials	21
Direct Labour (50% variable)	15
Overheads (30% variable)	15
Total Cost	**51**
Profit	09
Selling price	**60**

The sales for the year ending on 31st March 2023 was ₹ 12,60,000/-.
The assets on 31-03-2023 were as under:

Raw Materials (at cost)	₹ 86,400/-
Work-in-progress (at prime cost)	₹ 60,000/-
Finished Goods (at total cost)	₹ 1,86,000/-
Debtors	₹ 2,16,000/-

The suppliers of raw material allow 2½ months credit period. The payment period of wages and overhead is 1 month. The company wants to adopt a 20% safety margin in the maintenance of working capital. Find out the working capital requirements of the company.

N622-3

[B] [7]

From the following income statement of Dev Pvt. Ltd. for 2022-23, calculate the EVA.

(₹ in crores)

Sales revenue	600
Less: Operating cost	300
Earnings before Interest and Tax	300
Less: Interest cost	15
Earnings before taxes	285
Less: Taxes (40%)	114
Earnings after taxes	171

The firms existing capital consists of ₹ 120 crores equity funds having 16% cost and Rs 100 crores 15% debt. Determine the economic value added during the year.

Q-3 What is Net Income approach? Explain with the help of suitable example. State its assumptions. [14]

OR

[A] Discuss the factors affecting capital structure in detail. [07]

[B] Write a note on 'Modigliani-Miller approach. [07]

Q-4 Discuss advantages and disadvantages of strategic alliance in detail [14]

OR

[A] Explain Joint Venture and Franchising with suitable example. [07]

[B] Write a note on Management buy-in and Management buy-out. [07]

Q-5 Do as directed (attempt any 7) [14]

1) Undrawn profit is _________ from working capital requirement.
   a) Added
   b) Deducted
   c) None of these
2) Full form of NPV is ________.
   a) Net Present value
   b) Non Performing value
   c) Net Profit value
3) Junk bonds are related to which of the following?
   a) Management Buy-in
   b) Management Buy-outs
   c) Leverage Buy-outs
4) Depreciation is a cash expense. (True / False)
5) There are no corporate taxes is assumed by which capital structure theories?
   a) Net Income approach
   b) Net Operating Income approach
   c) Modigliani Miller approach
   d) All of the above
6) The total of current assets is known as _______ working capital.
   a) Gross
   b) Net
7) Traditional approach is the _________ approach.
   a) Positive
   b) Negative
   c) Intermediate

(P.T.O)

N622-4

8) Reverse merger is also known as 'back door listing'
   a) True
   b) False
9) Project are 'Independent Projects' if they are competing with each other.
   a) True
   b) False
10) When an 'acquirer' takes over the control of the 'target company' it is known as _____.
   a) Merger
   b) Joint Venture
   c) Take Over
11) Which of the following is not a method of divestiture?
   a) Equity carve out
   b) Partial sell off
   c) Demerger
   d) Franchising
12) In which year M-M approach was published.?
   a) 1950
   b) 1958
   c) 1980
   d) 1981

~~~~~**ALL THE BEST**~~~~~
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