

B.B.A. Sem.-6 (Rep) Examination

CC-314

Adv. Financial Management

October-2025

Time : 2-30 Hours]

[Max. Marks : 70

1. Vantara and Co. is considering a proposal to replace one of its plants costing ₹ 60000 (having a written down value of ₹ 24000). The remaining economic life of the plant is 4 years after which it will have no salvage value. However, if sold today, it has salvage value of ₹ 20000. The new machine costing ₹ 130000 is also expected to have a life of 4 years with a scrap value of ₹ 18000. The new machine due to its technological superiority is expected to contribute additional annual benefit (before depreciation and tax) of ₹ 60000. The company follows straight line method of depreciation. Find out each cash flow associated with this decision given that tax rate applicable to the firm is 30%. Calculate NPV of the replacement project and advise if Vantara and Co. should replace this plant. [14]

OR

- [A] 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: [7]

	Machine A	Machine B
	₹	₹
Initial investment	280000	300000
Net Profit after taxes:		
At the end of 1 st year	90000	64550
At the end of 2 nd year	90000	64550
At the end of 3 rd year	50000	64550
At the end of 4 th year	10000	64550

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.

- [B] Explain Net Present Value Method of Capital Budgeting and also give Advantages and Limitations of it. [7]

2. [A] Performa cost sheet of a company provide the following particulars: [7]

Elements of cost	Amount per Unit (% of Selling Price)
Materials	50%
Direct wages	15%
Overheads	15%

The following further particulars are available:

- (1) Selling price is ₹ 80 per unit.
- (2) Raw materials are expected to be in stores for an average of 2 months.
- (3) Materials will be in process, an average of one month.
- (4) Finished goods are required to be in stock for an average of 2 months.
- (5) Credit allowed to debtors is three months.
- (6) Credit allowed by supplier is two months.
- (7) Time gap in payment of wages and overheads is one month.

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You are required to prepare a statement showing the working capital needed to finance a level of activity of 900000 units of production.

[B] Explain the concept and importance of EVA. [7]

OR

[A] The cost structure of a company's product is as follows: [7]

Particulars	Cost per Unit (₹)
Raw Materials	20
Direct Labor	5
Overheads	15
Total cost of Production	40
Profit	10
Selling Price	50

- (1) The annual production is 240000 units
- (2) It is the policy of the company to maintain the stock of raw materials equivalent to one month's production.
- (3) Half a month's production will remain in process throughout the year. (Stage of completion: Raw Material 100%, Direct Labor 50% and Overheads 50%)
- (4) The finished goods remain in warehouse on an average for a month.
- (5) The company sells its goods on credit and allows two months credit to its customers.
- (6) The suppliers of raw materials provide 3 months credit to the company.
- (7) The period of lag for wages and overheads is one month.
- (8) A minimum cash balance of ₹ 25000 is expected to be maintained.

You are required to prepare a statement showing working capital requirement.

[B] Calculate Economic Value Added (EVA) with the help of following information of XYZ Limited: [7]

- Financial Leverage : 1.4 times
Capital Structure : Equity capital, ₹ 200 lakh
Reserves and surplus, ₹ 160 lakh
10% Debentures, ₹ 350 lakh.
Cost of equity : 15%
Income tax rate : 30%

3. [A] What is Capital Structure? Explain the features of appropriate capital structure. [7]

[B] Enumerate the Net Operating Income approach of Capital Structure. [7]

OR

[A] Discuss the Traditional Approach of Capital Structure. [7]

[B] Explain the factors affecting Capital Structure. [7]

4. [A] Explain the concept of Take Over and Joint Venture. [7]

[B] Give the meaning of Corporate Restructuring and also discuss the reasons for it. [7]

OR

[A] Give the definition of Strategic Alliance and also explain the forms, stages, advantages and disadvantages of Strategic Alliance. [7]

[B] Explain the concept of Equity Carve Outs and Franchising. [7]

5. Do as directed (Attempt any 7 out of 12):

[14]

- (1) Capital Budgeting is a part of _____ Decision. (Financing, Investment, Liquidity, Dividend)
- (2) Mutually Exclusive Projects cannot be accepted together at a time. (True/False)
- (3) Saving in respect of a cost is treated in capital budgeting as _____. (An Inflow, An Outflow, Nil)
- (4) The larger the volume of credit sales, the greater will be the requirement of working capital. (True/False)
- (5) The amount of current assets required to meet a firm's long-term minimum needs is referred to as _____ working capital. (Temporary, Net, Permanent, Seasonal)
- (6) A combination of two or more companies that compete directly with each other is known as a _____. (Conglomerate Merger, Vertical Merger, Horizontal Merger, Take over)
- (7) _____ approach suggests that if financial leverage is increased in a firm, there will be decrease in WACC and an increase in the market value of its shares. (NI, NOI, Traditional, MM)
- (8) In finance, "Net Working Capital" means the same thing as _____. (total assets, current assets, fixed assets, current assets minus current liabilities)
- (9) A transaction or a series of transactions that convert a publicly traded company into private entity is called _____. (Sell-off, Liquidation, Equity Carve Outs, Going Private)
- (10) In MM-Model, irrelevance of capital structure is based on _____. (Cost of debt, Cost of equity, Arbitrage process, Trade -off)
- (11) By using a _____, the firm can independently control considerable assets with a very limited amount of equity. (Joint Venture, Leveraged buyout, Spin-off, Consolidation)
- (12) The making up of capitalization through various sources of finance is known as _____. (Capital Budgeting, Capital Structure, Capital Investment, Capital Expenditure)

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