Seat No:_____________ Enrollment No:_____________

PARUL UNIVERSITY

FACULTY OF MANAGEMENT

BBA Summer 2021 - 22 Examination

Semester: VI **Date: 5-04-2022**
Subject Code: 06101387 **Time: 10:30am To 1:00pm**
Subject Name: Advance Financial Management –II **Total Marks: 60**

Instructions
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as Directed.

A). Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

1. If capital is to be rationed *for only the current period,* a firm should probably first consider selecting projects by descending order of ____.
   - a) Net Present Value
   - b) Profitability Index
   - c) Pay back Period
   - d) Internal rate of Return

2 A firm following an aggressive working capital strategy would ________________.
   - a)Hold substantial amount of fixed assets
   - b) Finance fluctuating assets with long-term financing
   - c)Minimize the amount of short-term borrowing.
   - d) minimize the amount of funds held in liquid assets

3A firm's optimal capital structure__________.
   - a)is the debt-equity ratio that results in the lowest possible weighted average cost of capital.
   - b) s found by locating the mix of debt and equity which causes the earnings per share to equal exactly 1.
   - c)is generally a mix of 40 percent debt and 60 percent equity.
   - d) exists when the debt-equity ratio is .50.

4The action or process of selling off subsidiary business interests or investments______.
   - a) Liquidation
   - b) Slump Sale
   - c) Take overs
   - d)Divestiture

5According to M&M Proposition II, without taxes, the cost of equity depends on the firm's:
(I. earnings before interest and taxes; II. cost of debt; III. debt-equity ratio;
IV. required rate of return on its assets)
   - a) I and II only
   - b) II, III, and IV only
   - c)I, III, and IV only
   - d) I, II, III, and IV

B).Define the following. (Each of 1 mark) **(05)**

1. Equity Carve out
2. Net working capital
3. Earning per share
4. Economic Value added
5. Strategic alliance

C).Direct questions.(Each of 1 mark) **(05)**

1. What is mutually exclusive projects ?
2. Differentiate between SDM and WDV method.
3. Who gave net income approach of capital structure.
4. What is financial restructuring ?
5. State any two reasons of corporate restructuring.

Q.2 Answer the following questions.

A). A plastic manufacturer has under consideration the proposal of production of high quality plastic glasses. The necessary equipment to manufacture the glasses would cost Rs. 1 lakh and would last 5 years. The tax relevant rate of depreciation is 25% on written down value. There is no other asset in this block. The expected salvage value id R. 10,000. The glasses can be sold at Rs. 4 each. Regardless of the level of production, the manufacturer will incur cash cost of Rs. 25,000 each year if the project is undertaken. The overhead costs allocated to this new line would be Rs. 5,000. The variable costs are estimated at Rs. 2 per glass. The manufacturer estimates it will sell about 75,000 glasses per year. The tax rate is 35% .
Should the proposed equipment be purchased? Assume 20% cost of capital and additional working requirement Rs. 50,000.(PVF @20% : 0.833, 0.694, 0.578, 0.482, 0.402) **(07)**

B). What do you mean by EVA? Explain in detail.. **(08)**

Q.3 Answer the following questions.

A). Define capital structure and explain briefly Modigliani –miller approach of capital structure. **(07)**

B). Discuss in detail about mergers, take overs, joint ventures and franchising as a technique of corporate restructuring . **(08)**

Q.4 Attempt any two questions. (Each of 7.5 mark) **(15)**

1. A company is currently considering modernization of a machine originally costing Rs. 50,000.However it is in a good working condition and can be sold for Rs. 25,000. Two choices are available. One is to rehabilitate the existing machine at a total cost of Rs. 1,80,000 and the other is to replace the existing machine with a new machine costing Rs.2,10,000 and requiring Rs. 30,000 to install. The rehabilitated machine as well as the new machine would have a six years life and no salvage value.
   The projected after tax profits under the various alternatives are :

Year	Existing machine	Rehabilitated machine	New Machine
1	2,00,000	2,20,000	2,40,000
2	2,50,000	2,90,000	3,10,000
3	3,10,000	3,50,000	3,50,000
4	3,60,000	4,00,000	4,10,000
5	4,10,000	4,50,000	4,30,000
6	5,00,000	5,40,000	5,10,000

   The firm is taxed at 35% . the company uses the SLM of depreciation and the same is allowed for tax purposes. Cost of capital is 12%. Advice the company that it should rehabilitate the existing machine or should replace it with new machine. .(PVF @12 % : 0.893, 0.797, 0.711, 0.635, 0.567)

2. Stark Industries' earnings before interest and taxes for the financial year 2019 amounted to Rs.5,130 Cr.. Applicable tax rate is 35%. 60% of the company's assets are financed by debt which has an after tax cost of 3.8%, while 40% is financed by equity with a cost of 9.8%. Stark Industries average total capital employed over the period amounted to Rs.50,420 cr.
Find Stark Industries' economic value added.

3. Differentiate between Net income approach and net operating income approach of capital structure.

4.“The Corporate Restructuring is the process of making changes in the composition of a firm’s one or more business portfolios in order to have a more profitable enterprise.”- Evaluate this statement explaining why firms go for corporate restructuring.