

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Summer 2022-23 Examination

Semester: 6
Subject Code: 06101387
Subject Name: Advanced Financial Management II

Date: 01/04/2023
Time: 10.30am to 1.00pm
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. Which is not the technique of capital investment project?

a) Pay-back period method	c) Net future value method
b) Average rate of return	d) Net Present value method
2. Which is one of the types of Working capital?

a) Permanent working capital	c) Short term working capital
b) Non-permanent working capital	d) Long term working capital
3. In measuring profitability of investment following aspects must be considered.

a) Losses	c) Standard cost
b) Sales revenue	d) Budget
4. Net income approach suggest that when there is a change in capital structure there take place a change in _____.

a) Overall cost of capital	c) Total value of the firm
b) Total capital of the firm	d) All of the above
5. One means for a company to “go private” is

a) Divestiture	c) The leveraged Buyout (LBO)
b) The pure play	d) Re-organization

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

1. Pay - back period
2. EVA
3. Capital structure
4. Strategic Alliance
5. Corporate restructuring

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

1. Describe any one capital budgeting problem.
2. What does a negative economic value added mean?
3. Write any two factors affecting capital structure.
4. What is net - operating income approach?
5. Write a difference between Merger and takeover.

Q.2 Answer the following questions.

- Ashok Limited is considering the purchase of a machine which will have a working life of five years. The machine is expected to earn Rs.10,000 per annum before deduction of tax. The company considers a yield of 20% necessary before investment is made in a project. How much could be spent in purchasing the machine. (07)

- B). Explain estimation of working capital requirement in various time periods. (08)

Q.3 Answer the following questions.

According to traditional approach, the market value of company X, and Y are as under:

Particulars	X	Y
Net operating income (EBIT)	Rs. 50,000	Rs.50,000
Cost of debts	0	10,000
Net income available to equity shareholders	50,000	40,000
Cost of equity capital (Ke)	0.10	0.11
A). Market value of equity capital (S)	5,00,000	3,60,000
Market value of debts (D)	0	2,00,000
Total value of the company (V)	5,00,000	5,60,000
Average cost of capital (K ₀)	0.10	0.09
Debt equity ratio	0	0.556

(07)

According to M-M approach, calculate the cost of capital and the value of company X and Y. Assume that (1) there are no taxes and (2) the rate of equilibrium value is 12.5%.

B). Write any five techniques of corporate restructuring.

(08)

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

(15)

1. Define capital budgeting and state its objectives. Explain its Net present value method.

2. The Reliance Plastic Ltd. Wants a project to be put into operation with effect from 1st January 2020 and the management desires to know the quantum of working capital required to finance the project. The company management provides the following information.

Production during 2020 will be 1,00,000 units. The percentage of production cost to selling price has been as follows:

Materials 50%

Labor 20%

Overheads 10%

Following further particulars are available:

- 1) Raw materials are expected to remain in stores for the average period of one month before issue to production.
- 2) Finished goods are to stay in the warehouse for two months on the average before being sold.
- 3) Each unit of production will be in process for one month on the average.
- 4) Credit allowed be creditors in respect of purchase of raw materials is 1 month.
- 5) Debtors are allowed two months credit from the date of the sale of the goods.
- 6) Selling price is fixed at Rs.9 per unit.

Prepare an estimate of Working Capital Requirement from the above information.

3. 'Basically, net operating income approach and M-M approach are identical, but M-M approach justifies it in terms of behavior of the investors.' Discuss.

4. Write short note on:

- (a) Management Buy – out
- (b) Franchising
- (c) Liquidation