

Seat No : _____

Enrolment No: _____

Parul Institute of Business Administration
Faculty of Management

Mid term Exam - Semester VI

Subject : Advance Financial Management -II

Total Marks : 30 Marks

Date : 02/04/2018

Time : 10:30 to 12:00

Q.1 (a) Indicate which of the following statements are true or false/Fill in the blanks: (1 mark each) (03)

1. Higher net working capital leads to higher profitability and liquidity.
2. There is inverse relationship between length of operating cycle of a firm and its working capital requirements.
3. Two mutually exclusive projects (A and B) have been evaluated. Project A has an NPV of Rs. 8 lakh and an IRR of 16%, project B has NPV of Rs. 7 lakh but has IRR of 18%. Since the Project B has higher IRR, it should be selected.

Q.1 (b) Answer the following questions : (1 mark each) (05)

1. Give formula : EVA
2. Give formula : Operating Cycle
3. Define : Gross Working Capital
4. Define : Net Present Value
5. Define : Cost of Capital

Q.2 (a) From the following information calculate economic value added to the firm during 2016. (07)

	(Rs. Lakh)
Sales Revenue	500
less : operating costs	300
less : interest costs	12
Earning before cost	188
less : Taxes (.40)	75.2
Earning after taxes	112.8

The firm's existing capital consists of Rs. 150 lakh equity funds, having 15% cost and Rs. 100 lakh 12% debt.

Q.3 Considering following information estimate amount of working capital required by the company in coming financial year. (7.5)

Particulars	Amount per unit
Estimated Cost per unit of production :	
Raw Material	Rs. 50
Direct Labour	Rs. 15
Overheads (exclusive of depreciation Rs. 10 per unit)	Rs. 05
Total Cash Cost	Rs. 70

Additional Information :

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Selling Price Rs. 100 Per unit

Level of Activity – 1,00,000 units of production per year

Raw material in stock -average 4 weeks

Work in progress (assume 50% completion stage in respect of conversion cost and 100% completion in respect of materials) -Average 2 weeks

Finished Goods in stock – average 4 weeks

Credit allowed to debtors – Average 8 weeks

Credit allowed to suppliers – Average 4 weeks

Lag in payment of wages – Average 1.5 weeks

Cash at bank – Rs. 30,000

Add 10% to your margin for the contingencies in the net working capital.

Assume 52 weeks of the year.

Q.4 NYS motors Ltd. is considering two mutually exclusive proposals X and Y. Proposal X will require the purchase of machine X, for Rs. 3,00,000 with no salvage value but an increase in the level of working capital to the tune of Rs. 1,00,000 over its life. The project will generate additional sales of Rs. 2,60,000 and require cash expenses of Rs. 60,000 in each of the 5 years of its life. Proposal Y will require the purchase of machine Y for Rs. 5,00,000 with no salvage value and additional working capital of Rs. 1,40,000. The project is expected to generate additional sales of Rs. 4,00,000 with cash expenses aggregating Rs. 1,00,000.

Both the machines are subject to written down value method of depreciation at the rate of 20 % .Assuming the company does not have any other asset in the block of 20% , it has the cost of capital 12% and is subject to 35% tax , advice which machine it should purchase?

What course of action would you suggest if machine X and Machine Y have salvage values fo Rs. 10,000 and Rs. 25,000 respectively?

(7.5)