K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Program:PGDM (A & B), 3rd Trimester (Batch 2017-2019)

Subject: Financial Management
(End Term Examination)

Maximum Marks: 100
Duration: 3 hours

Date: 29/03/2018

Notes:
1. All questions carry equal marks. There are 6 questions
2. Answer ANY 2 questions from Part A and ANY 2 questions from Part B
3. Make suitable assumptions if required and state them
4. It is an OPEN BOOKS examination and students are allowed to use ONLY OWN books, notebooks and calculators.

PART A

Question 1

We know that working capital is required if payment to suppliers is to be made before cash is collected from customers. Suppose a company is present end to end, that is it has its own materials (so no suppliers) and it has its own retails stores (so no intermediaries like wholesalers). Would this company need working capital ?

Question 2

Explain why ratio analysis is considered suitable for carrying out financial analysis ?

Question 3

How would you calculate the return on investment for an MBA program. Explain using numerical values.

PART B

Question 4

Prepare an estimate of the amount of financing required for working capital from the following information :
Production during the previous year was 1,000,000 units. The same level of activity is intended to be maintained during the current year.
The expected ratios of cost to selling price are :

Direct material	40%
Direct labor	20%
Manufacturing Overheads	20%

The raw materials ordinarily remain in stores for 3 months before production. Every unit

of production remains in the process for 2 months and is assumed to be consisting of 100% raw material, direct labor and overheads. Finished goods remain in the warehouse for 3 months. Credit allowed by creditors is 4 months from the date of the delivery of raw material and credit given to debtors is 3 months from the date of dispatch.
The estimated balance of cash to be held Rs. 1,50,000

Direct labor is paid with a lag of 15 days and manufacturing overheads are also paid with a lag of 15 days

Selling price is Rs. 10 per unit. Both production and sales are in a regular cycle.

Question 5

Lou Lewis, the president of Lewisville Company has asked you to give him an analysis of the best use of a warehouse the company owns.

a. Lewisville Company currently is leasing the warehouse to another company for Rs. 10,000 per month on a year-to-year basis.
b. The warehouse's estimated sales value is Rs.500,000. A commercial Realtor believes that the price is likely to remain unchanged in the near future. The building originally cost Rs.100,000 and is being depreciated at Rs.5,000 annually. It's current net book value is Rs.75,000.
c. Lewisville Company is seriously considering converting the warehouse into a factory outlet for furniture. The remodeling will cost Rs.100,000 and will be modest because the major attraction will be rock-bottom prices. The remodeling will be depreciated over the next five years using the straight line depreciation
d. The inventory, cash, and receivables needed to open and sustain the factory outlet would be Rs.400,000. This total is fully recoverable whenever operations terminate.
e. Lou is fairly certain that the warehouse will be condemned in ten years to make room for a new highway. The firm most likely would receive Rs.2,00,000 from the condemnation.
f. Estimated operating data, exclusive of depreciation, are

SALES	Rs.900,000
OPERATING EXPENSES	Rs.500,000

g. Nonrecurring sales promotion costs at the beginning of year 1 are expected to be Rs.100,000.
h. Nonrecurring termination costs at the end of year 5 are Rs.50,000.
i. The minimum annual rate of return desired is 14 percent. The company is in the 40 percent tax bracket.

Required:

1. Show how you would handle the individual items in determining whether the company should continue to lease the space or convert it to a factory outlet.

2. After analyzing all relevant data, estimate cash flows only.

Question 6

A company in apparel has the following balance sheet

Cash	10,000	Accounts Payable	5,000
Accounts Receivable	15,000	Accrual	8,000
Inventory	10,000	Short term financing	20,000
Net Fixed Assets	60,000	Long term debt	35,000
		Equity	27,000
Total	95,000		95,000

For this year the company's sales were Rs. 40,000, Gross profit of Rs. 25,000 and Net Income of Rs. 5,000. The company paid 50% of income as dividends.

For the next year the company estimates that sales can grow by 25% and that its AFN would be about Rs 17,000. If it raises this as debt, it finds it debt to equity would be around 2.40 which is too high. Equity markets are not conducive for capital raising. The firm does not want to reduce the sales growth and is looking at options to manage the AFN. Please advise the firm with atleast three options giving the amount in rupees which can help reduce the AFN.

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