# K.J. Somaiya Institute of Management Studies & Research

**Course PGDM- IB – II Tri End Term Exam**

**Sub: Financial Management**

**Time: 3 hours** **Date : 08/01/2019** **Marks: 50**

**Note:** 1) **Section A is compulsory. Attempt any three questions from Section B.**
**2) Be reasonable and explicit in making assumptions (if any)**
**3) You may use interest factor tables and scientific calculator**

## Section A

1. Following information is extracted from the financial staement of a firm ABC Ltd published on year end (Rs in lakh)

| Parameter | Year ending 31/3/2016 (Rs) | Year Ending 31/3/2017 (Rs) |
|---|---|---|
| Cash | 10.0 | 9.5 |
| Sundry Debtors | 15.5 | 20.2 |
| Shor term investment | 8.0 | 12.0 |
| Inventories | 90.3 | 114.7 |
| Prepaid Expenses | 1.5 | 1.1 |
| Total Current assets | 125.3 | 157.5 |
| Total assets | 275.0 | 310.0 |
| Current liabilities | 32.7 | 41.9 |
| Debt | 90.0 | 90.0 |
| Equity | 120 | 120 |
| Retained Earnings | 32.3 | 60.1 |
| Total Liabilities | 275.0 | 310.0 |

Income statement for the year ending 31/3/2017…… (Rs in lakh)

| | |
|---|---|
| Sales | 210.5 |
| Less- Cost of goods sold | 145.9 |
| Less- Interest | 9.0 |
| Net profit | 55.6 |
| Less- Tax (@ 40%) | 22.2 |
| Profit after tax | 33.4 |
| Profit distributed as dividend | 13.4 |

a) From the information given in the balance sheet and income statement above, calculate the current ratio and acid test ratio. Comment on the liquidity of the firm.
b) Refer the financial statement given above and calculate debt equity ratio and interest

coverage ratio. Comment on the financial leverage of the firm.

c) Refer the financial data and calculate- Gross profit ratio, Net profit ratio, Return on total assets and Return on equity. Comment on the profitability of the firm.

d) Calculate Debtors turnover ratio, Inventory turnover ratio and Total asserts turnover ratio. Comment on the inventory management of the firm.

e) Few financial ratios of a firm ABC Ltd are given (some are given other you have already calculated above) below along with the corresponding industry average ratio. Based on these ratios, describe the strengths and weaknesses of the firm.

| Financial ratios | ABC Ltd | Industry Average |
|---|---|---|
| Current ratio | | 2.5 |
| Debtors turnover ratio | | 10.0 |
| Inventory turnover ratio | | 9.3 |
| Debt to assets ratio | 25.5 | 56.7 |
| Net profit ratio | | 4.7 |
| Net profit to total assets ratio | 3.5 | 6.9 |
| Net profit to net worth ratio | 5.5 | 9.5 |
| Assets turnover ratio | | 2.2 |

**(15M)**

2. Assuming a discount rate of 12%, find out which one of the following gives the highest returns:-

a) Rs 1,60,000 available today

b) Rs 1,75,00 to be received after 8 years

c) Rs 25000 p.a. in perpetuity

d) Rs 10,000 per month for a year and Rs 1,00,000 at the end of the year

e) Rs 25,000 per year for the next 10 years. **(5 M)**

## Section B

3. Following information is forecasted by the CS Ltd for the year ending 2016-

| | Balance as at 1st April 2016 | Balance as at 31st March 2017 |
|---|---|---|
| Raw materials | 45000 | 65356 |
| Work in progress | 35000 | 51300 |
| Finished goods | 60181 | 70175 |
| Debtors | 112123 | 135000 |
| Creditors | 50079 | 70469 |
| Purchase of raw materials (all credit) | | 400000 |
| Cost of production | | 750000 |

| | | |
|---|---|---|
| Cost of goods sold | | 915000 |
| Operating cost | | 950000 |
| Sales (all credit) | | 1100000 |

You may take one year as equal to 365 days. You are required to calculate-

a) Net operating cycle period
b) Number of operating cycle in a year
c) Amount of working capital requirement **(10M)**

4. Paresh Rawal Company Ltd is considering selecting a machine out of two mutually exclusive machines. The company's cost of capital is 12% and corporate tax rate is 30%. Other information relating to both machines is as follows-

| | Machine –A | Machine – B |
|---|---|---|
| Cost of machine | Rs 15, 00,000 | Rs 20, 00,000 |
| Expected Life | 5 years | 5 years |
| Annual Income (Before tax and depreciation) | Rs 6, 25,000 | Rs 8, 75,000 |

Depreciation is to be charged on straight line basis. You are required to calculate:-

i. Payback period
ii. Net present value
iii. Profitability Index **(10M)**

5. Anthony Ltd has the following book value capital structure-

(Rs in million)

| | |
|---|---|
| Equity Capital (10 million shares Rs 10 each) | 100 |
| 11% Preference Capital (100000 shares of Rs 100 each) | 10 |
| Retained earnings | 120 |
| 13.5% Debentures (500000 Debentures of Rs 100 each) | 50 |
| 12% Term Loan | 80 |
| Total | 360 |

The next expected dividend per share is Rs 1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is Rs 20. Preference stock, redeemable after 10 years is currently selling for Rs 75 per share. Debentures, redeemable after 6 years are selling for Rs 80 per debenture. The tax rate for the company is 50%. Calculate the weighted average cost of capital using book value proportion. **(10M)**

6. A firm has a current sales of Rs 2,56,48,750. The firm has unutilized capacity. In order to boost its sales, it is considering the relaxation in its credit policy. The proposed terms of credit will be 60 days credit against the present policy o 45 days. As a result, the bad debts will increase from 1.5% to 2% of sale. The firm's sales are expected to increase by 10%. The variable operating cost are 72% of the sales. The firm's corporate tax rate is 35%, and it requires an after tax return of 15% on its investment. Should the firm change its credit period? **(10M)**

7. Write short notes on any two-

    a. Shareholders value creation

    b. Decisions of Financial Management

    c. Long term sources of finance

    d. How to finance Working capital **(10M)**