K.J. Somaiya Institute of Management Studies & Research

Course PGDM- IB – III Tri End Term Exam

Sub: *Financial Management*

Time: 3 hours **Date : 27/12/2016** **Marks: 50**

Note: 1) Attempt *any five* questions
2) All questions carry ten marks each
3) Be reasonable and explicit in making assumptions (if any)
4) You may use interest factor tables and scientific calculator

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1. Consider the following mutually exclusive projects:

Projects	Cash Outflow	Cash Inflows (Rs)			
		C1	C2	C3	C4
A	10000	6000	2000	2000	12000
B	10000	2500	2500	5000	7500
C	3500	1500	2500	500	5000
D	3000	0	0	3000	6000

Required-

i. Calculate the payback period of each project
ii. If the standard payback period is 2 years, which project will you select? Will your answer differ, if standard payback period is 3 years?
iii. If the cost of capital is 10%, compute the discounted payback period for each project. Which project will you recommend, is standard discounted payback period is 2 years and 3 years?
iv. Compute NPV of each project. Which project will you recommend on the NPV criterion? The cost of capital is 10%.

2. Following information has been extracted from the financial statements of Akbar and Birbal Ltd. *(Rs In lakh)*

	As on 31st March 2014	*As on 31st March 2015*
Raw Materials & Stores	560	520
Work-in- process	280	250
Finished goods	250	230
Accounts receivable	456	435
Trade creditors	265	270

The following costs were incurred by the firm during the year 2014-15:

	Rs in laks
Purchase of Raw materials and stores	750
Manufacturing overheads	650
Excise duty	235
Depreciation	126
Selling and Administration overheads	896
Revenue	3,400

You are required to compute the operating cycle for Akbar and Birbal Ltd.

3. The Brillent Products Ltd understands the financial position in terms of ratios from you.

The Balance sheet and profit and loss account for the current year is given for your calculation.

Profit & Loss Account

(For the current year ending)

Particulars	Amount	Particulars	Amount
Opening Stock	199000	Sales	1700000
Purchases	1090500	Closing Stock	298000
Direct Expenses	28500		
Gross Profit	680000		
	1998000		**1998000**
Operating Expenses-		Gross Profit	680000
Administration expenses	300000	Non-operating income	6000
Selling & Distribution Expenses	60000	Profit on sale of share	12000
Finance expenses	30000		
Non-operating Expenses-			
Loss on sale of assets	8000		
Net Profit	300000		
	698000		**698000**

Balance Sheet as on Current Year End

Liabilities	Amount	Assets	Amount
Issued Capital (4000 equity share of Rs 100 each)	400000	Land & Building	300000
Reserve & Surplus	300000	Plant & Machinery	160000

Current Liabilities	260000	Stock	298000
		Debtors	142000
		Cash & Bank balance	60000
	960000		**960000**

From the above statements you are required to compute the following and give your interpretation-

a) Current Ratio b) Operating Ratio c) Stock Turnover

d) Return on total assets e) Fixed assets turnover

4. The following is the capital structure of Simons Company Ltd as on 31 march Current year-

Equity shares – 10000 shares of Rs 100 each	Rs 10,00,000
10% Preference shares of Rs 100 each	Rs 400000
12% Debenture	Rs 600000
Total	**Rs 2000000**

The market price of the company's share is Rs 110 and it is expected that a dividend of Rs 10 per share would be declared for the current year. The dividend growth rate is 6%. Preference shares redeemable after 10 years at par and currently selling at Rs 100 per share.

(a) If the company is in the 50% tax bracket, compute the weighted average cost of capital.

(b) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs 10 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend of equity shares from Rs 10 to Rs 12 per share. However, the market price of equity share is expected to decline from Rs 110 to Rs 105 per share. The cost of preference share would be same.

5. As a winner of a competition, you can choose one of the following prizes:

1. Rs. 800000 now
2. Rs. 2000000 at the end of 8 years
3. Rs. 100000 per year forever
4. Rs. 130000 per year for 12 years
5. Rs. 32000 next year and rising thereafter by 8 percent per year forever
6. An annuity of Rs. 150000 starting immediately and lasting until 9th year

If the interest rate is 12 percent, which prize would you choose and why?

6. Attempt *both subparts.* Each subpart carries 5 marks.

a) Your company, a major electrical equipment manufacturer in the private sector, has decided to expand its activities by getting into telecommunications as well. This expansion exercise is expected to cost you Rs. 1,500 crore, if implemented within one year. As the Finance manager of the company, how would you go about raising the funds required?

b) Gamma manufactures Ltd. intends to raise finance for the expansion of its established business in new markets. It is contemplating making a foray in the Indian markets. Discuss the probable sources of finances available to Gamma manufacturing Ltd.

7. Attempt *both subparts.* Each subpart carries 5 marks.

a) A firm has current sales of Rs 25648750. 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 costs 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?

b) A machine purchased six years back for Rs 150000 has been depreciated to a book value of Rs 90000. It originally had a protected life of 15 years. There is a proposal to replace this machine. A new machine will cost Rs 250000 and result in reduction of operating cost by Rs 30000 p.a. for next nine years. The existing machine can now be scrapped away for Rs 50000. The new machine will also be depreciated over nine years' period with salvage value of Rs 25000. Tax rate is 50% and the cost of capital is 10%. Determine whether the existing machine should be replaced or not.