K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH, Vidyavihar, Mumbai- 400077

Program: *PGDM-RM (Batch2018-20), Trim-III*

Subject: Financial Management

Maximum Marks: 50 **Duration: 3 hours** **Date: 25th March, 2019**

Instructions

Q1 is compulsory, carrying 20 marks. Attempt any 3 questions from the remaining, each carrying 10 marks.

Q1. (a.) Following are the financial statements of Prashant Ltd:

Balance Sheet as on 31st March, 2018

Liabilities	Rs.
Equity share capital of Rs 10 each	50,00,000
Reserves and surplus	10,00,000
12% Debentures	20,00,000
Creditors	12,00,000
Bank overdraft	3,00,000
	95,00,000
Assets	
Fixed assets	61,00,000
Stock	16,00,000
Debtors	12,00,000
Bills receivable	2,50,000
Cash in hand	3,50,000
	95,00,000

Revenue Statement

Net sales		73,00,000
Cost of sales		62,05,000
Gross profit		**10,95,000**
Administrative expenses	1,82,500	
Selling and distribution expenses	3,65,000	
Operating profit		5,47,500
Interest		2,40,000
Profit before tax		3,07,500
Tax		92,250
Profit after Tax		**2,15,250**

You are required to compute the following ratios of the company:

a. Current Ratio

b. Stock Turnover Ratio
c. Return on Investment
d. Debtors turnover ratio
e. Debt equity ratio
f. Earnings Per Share
g. Net Profit ratio
h. Liquid ratio

Also give your opinion on the financial performance of the company. **(15 marks)**

(b) Calculate Operating Leverage, Financial Leverage and Combined Leverage for financial plans 1, 2 and 3 from the following relating to XYZ Ltd. Cost of debt for all plans is 12%.

Installed capacity(units)	1200
Actual production and sales	800
Selling price per unit (Rs)	15
Variable cost per unit (Rs)	10
Fixed cost (Rs)	2,000

Capital Structure

Particulars	Financial plan		
	1	2	3
Equity	5,000	7,500	2,500
Debt	5,000	2,500	7,500

(5 marks)

Q2. The Modern Chemicals Ltd requires Rs 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs 5,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project—by raising debt of Rs 2,50,000 or Rs 10,00,000 or Rs 15,00,000 and the balance, in each case, by issuing equity shares. The funds can be borrowed at the rate of 10 per cent upto Rs 2,50,000, at 15 per cent over Rs 2,50,000 and upto Rs 10,00,000 and at 20 per cent over Rs 10,00,000. The tax rate applicable to the company is 30 per cent. Which form of financing should the company choose?

Q3. The following details pertain to a project. You are required to estimate the net working capital required for that project.

Particulars	Amount per unit
Estimated cost per unit of production	
Raw material	Rs. 80
Direct labour	30
Overheads	60
Total cash cost	170

Additional information:
Selling price, Rs 200 per unit
Level of activity – 104000 units of production per annum
Raw material are in stock for 4 weeks
Work in progress takes 2 weeks
Finished goods are in stock for 4 weeks
Credit allowed by suppliers is 4 weeks
Credit allowed to debtors is 8 weeks
Lag in payment of wages is 1.5 weeks
Cash at bank is expected to be Rs 25,000.
All sales are on credit basis only.

Q4. A company has on its books the following amounts and specific costs of each type of capital.

Type of Capital	Book value	Market Value	Specific costs (%)
Debt	5,00,000	4,80,000	10
Preference	2,00,000	2,10,000	12
Equity	8,00,000	15,00,000	15
Retained earnings	3,00,000		13

Determine the weighted average cost of capital using (a) Book value weights and (b) Market value weights.

Q5. A company is considering an investment proposal at a cost of Rs 3,00,000. The facility has a life of 5 years. Tax rate is 35%.
Assume that depreciation is on straight line method.
The estimated cash flows before depreciation and tax are as below:

YEAR	CFBT
1	55,000
2	67,250
3	77,450
4	65,230
5	110,400

Compute the following:

a. Payback period

b. Average rate of return

c. Net Present value at 10% discount rate.

   The present value factors at 10 % are given below:

YEAR	PV Factor
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621