

K.J. Somaiya Institute of Management Studies & Research
Course: MHRDM II Semester (2017-20 Batch)
Sub: Financial Management

9/4/2018

Time: 3 Hours

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**

1. The following information is available for the Lentin Repossessions Company as of 31 March Current year.

Comparative Balance Sheet (Rs in millions)

Particulars	Current Year (Rs in millions)	Previous year (Rs in millions)
Cash	15	10
Accounts Receivables	30	25
Inventory	75	75
Prepaid Insurance	10	15
Net Property & Equipment	400	315
Total Assets	530	440
Accounts payable	40	50
Other current liabilities	25	40
Bonds payable	75	150
Equity share capital	290	150
Retained earnings	100	50
Total liability & equity	530	440

Income Statement of Current Year

Particulars	Current Year (Rs in millions)
Sales	400
Cost of goods sold	210
Gross profit	190
Operating expenses	55
Operating Income	135
Interest Expenses	15
Income before tax	120
Income tax expenses	50
Net Income after tax	70

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

- a) Current Ratio
- b) Net margin Ratio
- c) Stock Turnover
- d) Return on total assets
- e) Debt equity ratio

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

- 2. Rs. 800,000 now
- 3. Rs. 20,00,000 at the end of 8 years
- 4. Rs. 100,000 per year forever
- 5. Rs. 130,000 per year for 12 years
- 6. An annuity of Rs. 1,50,000 starting immediately and lasting until 9th year

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

3. 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

4. Attempt *both subparts* in about 150 words (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 European markets. Discuss the probable sources of finances available to Gamma manufacturing Ltd.

5. The Zee Ltd needs Rs 5, 00,000 for construction of new plant. The following three financial plans are feasible:

- (i) The company may issue 50,000 equity shares at Rs 10 per share.
- (ii) The company may issue 25000 equity shares at Rs 10 per share and 2500 debentures of Rs 100 denomination bearing an 8% rate of interest.
- (iii) The company may issue 25000 equity shares at Rs 10 per share and 2500 preference shares at Rs 100 per share bearing 8 % rate of dividend.

If the company's earnings before interest and taxes are Rs 1, 00,000, what are the earnings per share under each of the three financial plans? Which alternative would you recommend and why? Assume corporate tax rate to be 50%.

6. Attempt *both subparts* in about 150 words (Each subpart carries 5 marks)

- a) Explain as to how the wealth maximization objective is superior to the profit maximization objective.
- b) Explain the important functions of financial management.

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

	Balance as at 1 st April 2016	Balance as at 31 st 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
