K.J. Somaiya Institute of Management Studies & Research

Course PGDM- IB – II Tri End Term Exam

Sub: *Financial Management*

Time: 3 hours **Date : 02/01/2018** **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
5) First five solved questions will be evaluated

1. JKL Ltd has the following balance Sheet as on March, 31, 2016 and March 31, 2015.

Balance Sheet

Sources of Funds	**31st March 2016**	**31st March 2015**
• Shareholders Fund	2377	1472
• Loan Fund	3570	3083
Total	5947	4555
Application of Funds:		
• Fixed Assets	3466	2900
• Cash & Bank balance	489	470
• Debtors	1495	1168
• Stock	2867	2407
• Other current assets	1567	1404
• Less: Current Liabilities	(3937)	(3794)
Total	5947	4555

The Income Statement of the JKL Ltd for the year ended is as follows-

	31st March 2016	**31st March 2015**
Sales	22165	13882
Less- Cost of goods sold	20860	12544
Gross Profit	1305	1338
Less- Selling & Admin expenses	1135	752
Earnings before Interest and Tax (EBIT)	170	586
Interest Expenses	113	105
Profit before tax	57	481
Tax	23	192
Profit After Tax (PAT)	34	289

Required to calculate following ratios for the year 2016;

(a) Inventory turnover ratio (b) Interest Coverage ratio (c) Return on Investment (d) Return on shareholders' equity (e) Average collection period.

2. From the following data, compute the duration of operating cycle for each of the two years and comment on the increase/decrease:

	Year 1	Year 2
Stock:		
Raw materials	20,000	27,000
Work-in-progress	14,000	18,000
Finished goods	21,000	24,000
Purchases	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 Days per year for computational purposes

3. Shakti Operations Ltd. is proposing to replace its fully depreciated machine by a new one costing Rs. 1, 50,000. The current market value of the old machine is Rs. 20,000 and the salvage value after 6 years is zero. The salvage value of the new machine after 6 years is expected to be Rs. 16,000. With the use of new machine, sales are expected to increase by Rs. 20,000 per annum and operating expenses to decrease by Rs. 12,000 per annum. The company follows a 30% WDV depreciation policy, has a weighted average cost of capital of 12% and attracts a marginal tax rate of 30%. Would you recommend Shakti Operations Ltd. to replace the machinery using an appropriate capital budgeting technique?

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

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. 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. Write short notes on any two-

- Wealth maximization vs profit maximization
- Sources of Finance
- Functions of Financial Management

7. Paresh Rawal Company Ltd is considering to select 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