

Total number of printed pages—8

25 (2) FIMN 203

2013

FINANCIAL MANAGEMENT

Paper : 203

Full Marks : 70

Time : Three hours

*The figures in the margin indicate full marks for the questions.*

Answer *any five* questions.

1. Evaluate an investment proposal for which details are given below :

Initial Outlay	—	Rs. 1,18,720
Net Cash Inflow :		
End of the year 1	—	Rs. 1,00,000
2	—	Rs. 20,000
3	—	Rs. 10,000
4	—	Rs. 10,000

The company can arrange necessary funds at 8%.

*Contd.*

Compute NPV and IRR 14

The PV factor of Re. 1 received at the end of each year at different rate is given as under :

Year	8%	10%	12%	14%
1	0.926	0.909	0.893	0.877
2	0.857	0.826	0.797	0.770
3	0.794	0.751	0.712	0.675
4	0.735	0.683	0.636	0.592

2. (a) In considering the optimum capital structure for a company, the following estimates of the cost of debt and equity capital have been made at various levels of debt-equity mix :

Debt as % of total capital employed	$K_d$ %	$K_e$ %
0	6	13
10	6	13
20	6	13.5
30	7	14
40	8	16
50	9	18

You are required to determine the optimum

debt-equity mix for the company by calculating composite cost of capital. 9

- (b) Calculate  $K_e$  given the following :

$$K_0 = 10\%$$

$$K_d = 6\%$$

$$\text{Debt (D)} = \text{Rs. } 5,00,000$$

$$\text{EBIT} = \text{Rs. } 1,00,000$$

5

3. From the following Balance Sheets of a company, prepare a Funds Flow Statement :

<u>Liabilities</u>	2011 Rs.	2012 Rs.
Equity share capital	3,00,000	4,00,000
8% Redeemable Preference shares	1,50,000	1,00,000
General Reserve	40,000	70,000
Profit & Loss A/c	30,000	48,000
Proposed Dividend	42,000	50,000
Creditors	55,000	83,000
Bills Payable	20,000	16,000
Provision for Taxation	40,000	50,000
	<u>6,77,000</u>	<u>8,17,000</u>



Assets

Goodwill	1,15,000	90,000
Land & Buildings	2,00,000	1,70,000
Plant	80,000	2,00,000
Debtors	1,60,000	2,00,000
Stock	77,000	1,09,000
Bills Receivable	20,000	30,000
Cash-in-hand	15,000	10,000
Cash at Bank	10,000	8,000
	<u>6,77,000</u>	<u>8,17,000</u>

Additional information :

1. Depreciation of Rs. 10,000 and Rs. 20,000 have been charged on Plant & Buildings respectively in 2012.
2. An interim dividend of Rs. 20,000 has been paid in 2012.
3. Rs. 35,000 income tax was paid during the year 2012.
4. The present credit terms of P. Company are "1/10 net 30". Its annual sales are Rs. 80 lakhs, average collection period is 20 days. Its variable

costs and average total costs to sales are 0.85 and 0.95 respectively and its cost of capital is 10%. The proportion of sales on which customers currently take discount is 0.5. The company is considering relaxing its discount terms to "2/10 net 30". Such relaxation is expected to increase sales by Rs. 5 lakhs, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.8. What will be the effect of relaxing the discount policy on company's profit ? Take year as 360 days. 14

You have been furnished with the financial information of Aditya Mills Ltd :

BALANCE SHEET AS ON 31.03.2012

<u>LIABILITIES</u>	<u>Rs.</u>	<u>ASSETS</u>	<u>Rs.</u>
Equity share capital (Rs. 100 each)	10,00,000	Plant & Equipment	6,40,000
Retained Earnings	3,68,000	Land & Building	80,000
Sundry Creditors	1,04,000	Cash	1,60,000
Bills Payable	2,00,000	Sundry Debtors	3,60,000
Other current liabilities	20,000	Less : Allowances	<u>40,000</u>
			3,20,000
		Stock	4,80,000
		Prepaid Insurance	<u>12,000</u>
	<u>16,92,000</u>		<u>16,92,000</u>

**STATEMENT OF PROFIT, year ended 31.03.2012**

Sales	–	40,00,000
Less : Cost of goods sold	–	<u>30,80,000</u>
Gross Profit	–	9,20,000
Less : Operating expenses	–	<u>6,80,000</u>
Net Profit	–	2,40,000
Less : Taxes @ 50%	–	<u>1,20,000</u>
Net Profit after taxes		<u>1,20,000</u>

Sundry Debtors and Stock at the beginning of the year were Rs. 3,00,000 and Rs. 4,00,000 respectively

Determine the following ratios :

- (a) Current Ratio
- (b) Acid-test Ratio
- (c) Stock Turnover Ratio
- (d) Debtors Turnover and Collection Period
- (e) Gross Profit Ratio
- (f) Net Profit Ratio
- (g) Operating Ratio

- (h) Earnings per share
- (i) Rate of Return on paid-up Equity Capital.
- (j) Market value of the shares if P/E rate is 10 times. 14

6. You are required to prepare for the Board of Directors of XYZ Ltd., a statement showing the Working Capital needed to finance a level of activity of 5,200 units of output, based on the following information :

Element of cost	Amount per unit (Rs)
Raw materials	8
Direct Labour	2
Overheads	6
	<hr/>
TOTAL COST	16
Profit	4
	<hr/>
Selling Price	20

Additional information :

- (i) Raw materials are in stock for an average period of 4 weeks.
- (ii) Materials are in process on an average for 2 weeks.



- (iii) Finished Goods are in stock on an average for 6 weeks.
- (iv) Credit allowed by suppliers of Raw-materials is for one month.
- (v) Credit allowed to customers is 2 months.
- (vi) Lag in payment of wages is 1½ weeks.
- (vii) Cash in hand and at Bank is expected to be Rs. 7300.

You are informed that production is carried on evenly during the year and wages and overheads accrue similarly. 14

- 7. Critically examine the Net Income Approach and Net Operating Income Approach regarding the question of optimum capital structure of a firm. 14
- 8. Write notes on *any two* : 7×2
  - (a) Managerial Finance functions
  - (b) Effects of Financial Leverage by a firm on its equity investors.
  - (c) Dividend decision.
  - (d) Instruments of long-term funds for a firm.