Roll No. ____________________

(Do not write anything on question paper except Roll No.)
[This paper consists of FOUR Pages]

Jagan Institute of Management Studies

End-Term Examination, April, 2017
Trimester III – PGDM (RM) 2016-18

Financial Management II

ET_RM_FM-II_2404

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.

Q 1 Comment on any **FOUR** of the following:

a) Financial statements are an important source of information to shareholders and stakeholders.

b) Capital Rationing can be internal or external.

c) Depreciation should be ignored while determining the working capital need of a firm.

d) Ratio analysis can be used by management to judge the efficiency in business operations.

e) Inflation affects not only the cash flows but also the discount rate.

f) Stability in dividend payment has a marked bearing on the market price of a share of a firm. Explain. **16**

Q 2 Differentiate between any **FOUR** of the following:

a) Walter's Model and Gordon's Model of Dividend Decision

b) Divisible projects and Indivisible projects.

c) Direct Lease, Leveraged Lease and Sale and Lease Back.

d) ABC Analysis and VED Analysis of Inventory Management.

e) Comparative Financial Statement and Common Size Financial Statement.

f) Money Discount Rate and Real Discount Rate **12**

Q 3 **a)** How do the equity shares represent residual claim in the ownership of a company? **2**

b) Prepare monthly cash budget for six months beginning April, 2017 on the basis of the following information:

i) Estimated monthly sales are as follows:

January	Rs.1,00,000	June	Rs.80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

ii) Wages and Salaries are estimated to be payable as follows:

April	Rs.9,000	July	10,000
May	8,000	August	9,000
June	10,000	September	9,000

iii) Of the sales, 80% are on credit and 20% for cash, 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses.

iv) Purchases amount to 80% of Sales; and are made and paid for in the month preceding the Sales.

v) The firm has 10% debentures of Rs.1,20,000. Interest on these has to be paid quarterly in January, April and so on.

vi) The firm is to make an advance payment of tax of Rs.5,000 in July 2017.

vii) The firm had a cash balance of Rs.20,000 on April 1, 2017, which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary borrowings at the end of each month (interest on these to be ignored). **10**

Q 4 a) What is the need for holding inventory? Why is inventory management important? **2**

b) The Balance Sheet of Skymet India Ltd. as on March 31, 2017 is as follows:

Sources of Funds		**(Rs. In lakhs)**
Shareholders' Funds:		
Share capital	800	
Reserves and Surplus	560	1360
Loan Funds:		
Long term Loans		1440
Total		**2800**
Application of Funds		
Fixed Assets (Net Block)		2000
Current Assets, Loans and Advances:		
Inventories	1200	
Receivables	960	
Cash and Bank	240	
	2400	
***Less:* Current Liabilities and Provisions**		
Short term Loans	800	
Payables	480	
Provisions	32	

	1600	
Net Current Assets		800
Total		**2800**

Sales for the year 2016-17 were Rs. 2400 lakhs. For the year ending on March 31, 2018, it is expected to increase by 25%. The net profit margin after taxes and dividend payout are expected to be 5 and 50% respectively.

You are requested to :

i) Estimate the "External Funds Needed" (EFN) for the year 2017-18.

ii) Determine the mode of raising EFN given the following parameters:

A. Current Ratio should be 1.25:1.

B. Ratio of Fixed Assets to Long Term loans should be 1.85:1. **10**

Q 5 ABC Machine Tool Company is considering the acquisition of a large equipment to set up its factory in a backward region for Rs.12,00,000. The equipment is expected to have an economic useful life of 8 years. The equipment can be financed either year term loan at 14% interest, repayable in equal instalments; or by an equivalent amount of lease rental per year. In both cases, payments are due at the end of the year. The equipment is subject to the straight line method of depreciation. Assuming no salvage value, and 50% corporate tax rate. Which of the financing alternatives should it select?

PVAF @ 14% for 8 years	13.233
PVAF @ 7% for 8 years	5.791

Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
PVF@14%	0.877	0.769	0.675	0.592	0.519	0.456	0.400	0.351
PVF@7%	0.935	0.873	0.816	0.763	0.713	0.666	0.623	0.582

12

Q 6 a) What is Du Pont Analysis? Explain the elements of this analysis. **3**

b) ABC Ltd. has a capital budget of Rs.40,00,000 for the year 2017. It has before it, the following 6 proposals for which the necessary information is provided hereunder.

Proposal	**Outlay (Rs.)**	**NPV**	**IRR**
A	14,00,000	6,00,000	20%
B	5,00,000	3,20,000	17%
C	10,00,000	4,00,000	19%
D	4,00,000	2,00,000	17.5%
E	11,00,000	9,00,000	18%
F	15,00,000	-5,00,000	12%

Find out the ranking of the proposals given that:

i) The projects are indivisible, and

ii) The projects are divisible

Also evaluate the ranking and make a final selection. **9**

Q 7 a) From the following data, compute the duration of the operating cycle for each of the two years and comment on the increase/decrease.

Particulars	Year 1 (Rs.)	Year 2 (Rs.)
Raw Material	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. **9**

b) The Cost Sheet of PQR Ltd. provides the following data:

Particulars	Cost per unit (Rs.)
Raw Material	50
Direct Labour	20
Overheads (including depreciation of Rs.10)	40
Total Cost	**110**
Profits	20
Selling Price	**130**

Average raw material in stock is for one month. Average material in work-in-progress is half month. Credit allowed by suppliers: one month; credit allowed to debtors: one month; Average time lag in payment of wages: 10 days; Average time lag in payment of overheads: 30 days; 25% sales are on the cash basis. Cash balance expected to be Rs.1,00,000. Finished goods lie in the warehouse for one month.

You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly. State your assumptions, if any, clearly. **9**

****