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FOUNDATIONS OF FINANCE

QUIZ 2 (variant A)

Time: 30 minutes

Max. Marks 10

Instructions for students:

1. On the top of the answer sheet write the roll nos. of your immediate neighbours.
2. Marks for the questions are mentioned alongside.
3. MCQs (only 1 correct) carry 1 mark each

1. **Create the cash flow statement for the ABC Ltd indicating cash from operating, investing and financing activities.** The firm has Rs 100,000 in the bank at the end of the prior year and its working capital accounts except cash remained constant during the year. It earned Rs 5 million in net income during the year and paid Rs 750,000 in dividends. Throughout the year, the firm purchased Rs 5.5 million of machinery that was needed for a new project. The depreciation expense for the year is Rs 450,000; however, the purchase price for the machinery represents additions to property, plant and equipment before depreciation. The only external financing done by the firm was to issue long term debt of Rs 1 million. **What was the firm's end of year cash balance?**

Cash Flow (with proper sign '+' for inflow '-' for outflow)			
Operating	Investing	Financing	Yearend cash balance

4 marks

2. XYZ Ltd. had Rs 55,000 in cash at year end 2021 and Rs 25,000 in cash at year end 2022. The firm invested in property, plant and equipment totalling Rs 250,000. Cash inflow from financing activity totalled Rs 170,000.
 - a) What was the cash flow from operating activities?
 - b) If accruals (liabilities) increased by Rs 25,000, receivables and inventories increased by Rs 100,000 and depreciation and amortization totalled Rs 10,000, what was the firm's net income?

a) Cash Flow from operating activities	b) Net Income

4 marks

3. Below are the 2021 and 2022 year-end balance sheets for Tran Enterprises:

<u>Assets:</u>	<u>2022</u>	<u>2021</u>
Cash	\$ 200,000	\$ 170,000
Accounts receivable	864,000	700,000
Inventories	<u>2,000,000</u>	<u>1,400,000</u>
Total current assets	\$3,064,000	\$2,270,000
Net fixed assets	<u>6,000,000</u>	<u>5,600,000</u>
Total assets	<u>\$9,064,000</u>	<u>\$7,870,000</u>
 <u>Liabilities and equity:</u>		
Accounts payable	\$1,400,000	\$1,090,000
Notes payable to bank	<u>1,600,000</u>	<u>1,800,000</u>
Total current liabilities	<u>\$3,000,000</u>	<u>\$2,890,000</u>
Long-term debt	2,400,000	2,400,000
Common stock	3,000,000	2,000,000
Retained earnings	<u>664,000</u>	<u>580,000</u>
Total common equity	<u>\$3,664,000</u>	<u>\$2,580,000</u>
Total liabilities and equity	<u>\$9,064,000</u>	<u>\$7,870,000</u>

The firm has never paid a dividend on its common stock, and it issued \$2,400,000 of 10-year, non-callable, long-term debt in 2021. As of the end of 2022, none of the principal on this debt had been repaid. Assume that the company's sales in 2021 and 2022 were the same.

Which of the following statements must be CORRECT?

- The firm increased its short-term bank debt in 2022.
- The firm issued long-term debt in 2022.
- The firm issued new common stock in 2022.
- The firm repurchased some common stock in 2022.
- The firm had negative net income in 2022.

4. Which of the following statements is CORRECT?

- The more depreciation a firm reports, the higher its tax bill, other things held constant.
- People sometimes talk about the firm's cash flow, which is shown as the lowest entry on the income statement, hence it is often called "the bottom line."
- Depreciation reduces a firm's cash balance, so an increase in depreciation would normally lead to a reduction in the firm's cash flow.
- Operating income is derived from the firm's regular core business. Operating income is calculated as Revenues less Operating costs. Operating costs do not include interest or taxes.
- Depreciation is not a cash charge, so it does not have an effect on a firm's reported profits.

Question 3 (write the correct alternative below)	Question 4 (write the correct alternative below)