IIT Delhi

B Tech – MSL 302 – Managerial Accounting & Financial Management

Major Test – November 22, 2016

Max Marks: 35

Duration:2 hours

Instructions:

Attempt any 5 questions.
The marks that each question carries are indicated in brackets.

1. Given below is the summarized profit and loss account and balance sheet of Indus Products Limited for the year 19X1

Profit and Loss Account			
	Rs.		Rs.
Opening stock	99,500	Sales	8,50,000
Purchases	5,45,250	Closing stock	1,49,000
Incidental expenses	14,250		
Gross profit	3,40,000		
	9,99,000		**9,99,000**
Operating expenses		Gross profit	3,40,000
Selling and distribution	30,000	*Non-operating income*	
Administrative exp.	1,50,000	Interest	3,000
Finance expenses	15,000	Profit on sale of shares	6,000
	1,95,000		**1,95,000**
Non-operating expenses			
Loss on sale of assets	4,000		
Net profit	1,50,000		
	3,49,000		**3,49,000**

Balance Sheet			
	Rs.		Rs.
		Land and building	1,50,000
Issued capital:			
2,000 ordinary shares of Rs. 100 each	2,00,000	Plant, machinery, etc.	80,000
Reserves	90,000	Stock-in-trade	1,49,000
Current liabilities	1,30,000	Sundry debtors 75,000 Less: Provision for doubtful debts 4,000	71,000
Profit and loss account	60,000	Cash and bank balances	30,000
	4,80,000		**4,80,000**

From these statements, you are required to calculate the following ratios and state the purpose they serve: (i) current ratio, (ii) operating ratio, (iii) stock turnover, (iv) fixed assets turnover, (v) return on capital employed. **[7 marks]**

ROCE = EAT + interest

Deb

p

IRR.

2. A company is considering the following investment projects:

Projects	Cash Flows (Rs.)			
	C_0	C_1	C_2	C_3
A	-10,000	+10,000		
B	-10,000	+7,500	+7,500	
C	-10,000	+2,000	+4,000	+12,000
D	-10,000	+10,000	+3,000	+3,000

(a) Rank the project according to each of the following methods: (i) Payback, (ii) IRR and (iii) NPV – assuming discount rates of 10 and 30 per cent.

(b) Assuming the projects are independent (and there is no capital rationing), which one should be accepted? If the projects are mutually exclusive, which project is the best?

[7 marks]

3. The capital structure of Adamus Ltd. in book value terms is as follows:

Equity capital (20 million shares, Rs. 10 par)	Rs. 200 million
Preference capital, 12 per cent (500,000 shares, Rs. 100 par)	Rs. 50 million
Retained earnings	Rs. 350 million
Debentures 14 per cent (1,200,000 debentures, Rs. 100 par)	Rs. 120 million
Term loans, 13 per cent	Rs. 80 million
	Rs. 800 million

The next expected dividend per share is Rs. 2.00. The dividend per share is expected to grow at the rate of 12 per cent. The market price per share is Rs. 50.00. Preference stock redeemable after 10 years, is currently selling for Rs. 85.00 per share. Debentures, redeemable after 5 years, are selling for Rs. 90.00 per debenture. The tax rate for the company is 30 per cent. Calculate the average cost of capital. **[7 marks]**

4. State different theories/approaches of financing. What are the instruments for financing working capital? **[7 marks]**

5. What are the theories of capital structure? Illustrate in terms of cost and valuation of a company. **[7 marks]**

6. State different techniques of evaluating capital budgeting decisions. When is each technique most appropriate? **[7 marks]**

$k_o = r_f + \beta(k_m$

$k_e = \frac{D_1}{P} + g$

$CO = \frac{CFAT}{(1+k)}$

$NPV = \frac{CFAT_n}{(1+k_o)^n}$

$10{,}000 = \frac{10000}{(1+k)}$