



# INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR

## Mid Spring Semester Examination 2023-24

Date of Examination: 23.02.2024 Session: AN Duration: 2 Hrs Full Marks: 40

Subject No.: EP60010, Subject Name: FINANCING NEW VENTURE

Department: Rajendra Mishra School of Engineering Entrepreneurship

**Instruction:** Answer should be brief and to-the-point. Unnecessary long answer may result in loss of marks. If you feel that assumptions are necessary to solve a problem, please state your assumption and mention why it was necessary.

1. The following ventures have supplied information on how they are being financed. Link the type and sources of financing to where each venture is likely to be in its life cycle. (4 marks)
  - A. Voice River provides media-on-demand services via the Internet. Voice River raised Rs. 500,000 of founder's capital in April 2023 and "seed" financing of Rs.1 million in September 2023 from the Sentinak Fund. The firm is currently seeking Rs. 6 million for a growth round of financing.
  - B. Electronic Publishing raised Rs. 200,000 from three private investors and another Rs. 200,000 from SOFTLEND Holdings. The financial capital is to be used to complete software development of e-mail delivery and subscription management services.
2. (a) What are the components of a sound business model? (3 marks)
 

(b) How Byju performed in terms of its profitability and revenue generation in 2021-22 in comparison to 2020-21? Name at least 1 subsidiary of Byju responsible for such performance. (3 marks)

(c) Comment on how the year 2023 went for Indian start-ups in terms of start-up funding, PE-VC exit and unicorn creations, in comparison to previous years. (3 marks)
3. (a) Determine the return on assets (ROA) for a venture with the following financial information: revenues = Rs. 500,000; net profit = Rs. 70,000; and asset turnover = 2.00 times. (1 mark)
 

(b) Your venture has total assets of \$690, net fixed assets of \$500, long term debt of \$80, and stockholders' equity of \$400. What is the amount of your venture's current liabilities? (1 mark)

(c) If a firm has \$100 in inventories, a current ratio equal to 1.2, and a quick ratio equal to 1.1, what is the firm's Net Working Capital? (1 mark)

(d) Calculate inventory turnover ratio from the following information: (3 marks)

(Rs.)

Opening stock	58,000
Purchases	4,84,000
Sales	6,40,000

Gross Profit Rate: 25% on Sales.

4. Salza Technology Corporation increased its sales from Rs. 375,000 in 2022 to Rs. 450,000 in year 2023 as is shown in the firm's income statements presented below. LeAnn Sands, chief executive officer (CEO) and founder of the firm expressed concern that the cash account and the firm's marketable securities declined substantially between 2022 and 2023. Salza's complete balance sheets are also shown below. Ms. Sands is seeking your assistance in the preparation of a statement of cash flows for Salza Technology.

(15 marks)

### SALZA TECHNOLOGY CORPORATION

#### Annual Income Statements (in Rs. Thousands)

	<u>2022</u>	<u>2023</u>
Net sales	375	450
Less: Cost of goods sold	<u>225</u>	<u>270</u>
Gross profit	150	180
Less: Operating expenses	46	46
Less: Depreciation	25	30
Less: Interest	<u>4</u>	<u>4</u>
Income before taxes	75	100
Less: Income taxes	<u>20</u>	<u>30</u>
Net income	55	70
Cash dividends	17	20

#### Balance Sheets as of December 31 (in Rs. Thousands)

	<u>2022</u>	<u>2023</u>
Cash	39	16
Accounts receivable	50	80
Inventories	<u>151</u>	<u>204</u>
Total current assets	240	300
Gross fixed assets	200	290
Less accumulated depreciation	<u>(95)</u>	<u>(125)</u>
Net fixed assets	<u>105</u>	<u>165</u>
Total assets	<u>345</u>	<u>465</u>
Accounts payable	30	45
Bank loan	20	27
Accrued liabilities	<u>10</u>	<u>23</u>

Total current liabilities	60	95
Long-term debt	15	15
Equity Share capital	85	120
Retained earnings	<u>185</u>	<u>235</u>
Total liabilities and equity	<u>345</u>	<u>465</u>

- A. Prepare a statement of cash flows for 2023 for the Salza Technology Corporation.
  - B. Provide a brief description of what happened in terms of cash flows (both inflows and outflows) for Salza between years 2022 and 2023.
  - C. Use your calculations from Part A for cash flows from operating and investing activities to indicate the extent to which Salza was building or burning cash in 2023.
  - D. Convert the 2023 annual cash build or cash burn to a monthly rate. If cash flow activities relating to operations and investing for 2023 continue into 2024, indicate: (1) how long it will be before Salza runs out of cash (if Salza is burning cash), or (2) the expected 2024 year-end cash account balance if Salza is building cash. Assume no changes in cash flows from financing activities in 2024 for calculation purposes.
5. (i) LeAnn Sands wants to conduct operating breakeven analyses of the Salza Technology Corporation for year 2024. Income statement information is shown in Problem 4 above. For year 2024, the firm's cost of goods sold is considered to be variable costs and operating expenses are considered to be fixed cash costs. Depreciation expenses in year 2024 also are expected to be fixed costs. (2marks)
- A. Calculate Salza's EBDAT breakeven in terms of survival revenues for year 2024.
  - B. Calculate Salza's NOPAT breakeven in terms of NOPAT breakeven revenues for year 2024.
- (ii) Find the name and nature of the accounts in the following transactions and show how they affect the accounting equation. (4marks)
- (a) Mr. X started a business with cash
  - (b) Purchased machinery and paid by cheque
  - (c) Goods purchased on credit from Mr D
  - (d) Sold goods for cash