

JAIPURIA INSTITUTE OF MANAGEMENT, Noida

**PGDM/SM/M**

FOURTH TRIMESTER (Batch 2016-18)

END TERM EXAMINATIONS (September, 2017)

SET NO.: 2

Course Name	Financial Management-II (FM-II)	Course Code	FIN404
Max. Time	2 hours	Max. Marks	40

Instructions: Attempt all the questions.

Q1. The following are the financial statements for Nederland Consument Producten NV for the fiscal year ended 31 December, 2014. As Reported on Annual Income Statement 31/12/14

Net sales	€51 407
Cost of products sold	<u>25 076</u>
Gross margin	26 331
Marketing, research, administrative exp.	15 746
Depreciation	<u>758</u>
Operating income (loss)	€ 9 827
Interest expense	<u>477</u>
Earnings (loss) before income taxes	€ 9 350
Income taxes	<u>2 869</u>
Net earnings (loss)	€ 6 481

Balance Sheet as of 31/12/14

Assets	€	Liabilities and equity	€
Net property, plant, and equipment	14 108	Ordinary shares	2 141
Net goodwill and other intangible assets	23 900	Retained earnings	<u>13 611</u>
Other non-current assets	<u>1 925</u>	Total shareholders' equity	15 752
Total non-current assets	39 933	Convertible preference shares	1 526
Prepaid expenses and other receivables	1 803	Long-term borrowings	12 554
Deferred income taxes	958	Deferred income taxes	2 261
Total inventories	4 400	Other non-current liabilities	<u>2 808</u>
		Total non-current liabilities	19 149

Accounts receivable	4 062		
Investment securities	423	Debt due within one year	8 287
Cash and marketable securities	5 469	Taxes payable	2 554
Total current assets	17 115	Accrued and other liabilities	7 689
		Accounts payable	3 617
		Total current liabilities	22 147
		Total liabilities	41 296
Total assets	57 048	Total liabilities and equity	57 048

Compare the firm's ratios with the industry ratios.

Industry Ratio	Average
Current ratio	2.05
Quick ratio	0.78
Gross margin	23.9%
Net profit margin	12.3%
Debt ratio	0.23
Long-term debt to equity	0.98
Interest coverage	5.62
ROA	5.3%
ROE	18.8%

Q2. Integriete Elektrosystem AG, a manufacturer of electrical supplies, has an ROE of 23.1%, a profit margin of 4.9 % and a total asset turnover ratio of 2.6 times. Its peer group also has an ROE of 23.1% but has over performed Integriete Elektrosystem with a profit margin of 5.3% and a total asset turnover ratio of 3.0 times. Explain how Integriete Elektrosystem managed to achieve the same level of profitability as reflected by ROE.

Q3. Brown & CO. issued seven year bonds two years ago that can be called for five years. The bond makes semi-annual coupon payments at a coupon rate of 7.875 percent. The bond has market value of 1053.40 and the call price is 1078.75. If the bonds are called by the firm, what is the investors realized yield?

Q4. Rhea Kirby owns shares in the Ireland based Runnymede Group. Currently, the market price of the shares is 36.34. The company expects to grow at a constant rate of 6 percent for the foreseeable future. Its last dividend was worth 3.25. Rhea's required rate of return for such shares is 16 percent. She wants to find out whether she should sell her shares or add to her holdings. What is the value of shares? Based on your answer, should Rhea buy additional shares in the Runnymede Group? Why or Why not?