

BITS PILANI, DUBAI CAMPUS

Course ECON C211 – Fundamentals of Finance and Accounting

Second Semester – 2013-2014

Component	Comprehensive Examination	Date	5.6.2014
Maximum Marks	40	Duration 3 hours	Pages 4
Weightage	40%		

Note : Answer all Question with your workings neatly

1. Given below are the likely returns in case of shares of Amlak and Tamlak in the various economic conditions. Both the shares are presently quoted at AED 110 per share. (3)

Economic Conditions	Probability	Returns of Amlak	Returns of Tamlak
High Growth	0.3	130	160
Low Growth	0.4	120	140
Stagnation	0.2	130	80
Recession	0.1	100	70

Calculate the risk per unit of return by using appropriate methods of standard deviations and coefficient of variation. Which of these two are risky investments? If an option is given to choose between the two which one would you prefer and why?

2. Allied Industries has four potential projects all with an initial cost of \$3Million. The capital budget for the year will only allow to accept one of the four projects. With the given discount rates and the future cash flows of each project as a project consultant what will be your advice which project can be accepted and Why ? Comment with the application of the following methods (5)

- a) Pay back period
- b) NPV method

Cash Flows	Project M	Project N	Project O	Project P
Year one	\$900,000	\$800,000	\$1,000,000	\$800,000
Year two	\$800,000	\$800,000	\$800,000	\$800,000
Year three	\$700,000	\$600,000	\$500,000	\$600,000
Year four	\$600,000	\$600,000	\$600,000	\$800,000
Year five	\$500,000	\$600,000	\$400,000	\$1,100,000
Discount Rate	5%	9%	15%	22%

3. Comment on the following

- a) IRR is always considered as an ideal approach for capital budgeting decisions. (2 M)
- b) Dividends have an impact on Income statement (1 M)

c) Financing a business through Debt financing is cheaper than equity (2 M)

d) Dividend payout ratio is the only deciding factor for the investors (1M)

4. Prepare a Cash flow Statement using (Indirect method) to show all the types of activities involved with the help of following statements (5 Marks)

Sarah Corporation

Comparative Balance Sheets

March 31, 2014

Assets	2014	2013
Cash	110000	66000
Accounts receivable	40000	60000
Inventories	30000	20000
Prepaid expenses	10000	2000
Land	260000	40000
Buildings	320000	80000
Accumulated depreciation buildings	(22000)	(10000)
Equipment	54000	20000
Accumulated depreciation equipment	(6000)	(2000)
Totals	796000	276000
Liabilities and Stockholders' Equity		
Accounts payable	56000	24000
Income tax payable	12000	16000
Bonds Payable	260000	40000
Common Stock	140000	100,000
Retained earnings	328000	96000
	796000	276000

Sarah Corporation

Income Statement

For the year ended December 31, 2013

Revenues		\$1,014,000
Cost of Goods Sold	300,000	
Operating expenses	222000	
Interest expense	84000	
Loss on sale of equipment	6000	
Depreciation expense	18000	630000
Income before income tax		384000
Income tax expense		94000
Net Income		290,000

Additional Information:

- a) The company declared and paid \$58000 cash dividend.
- b) Issued common stock at par for \$40,000 cash.
- c) Depreciation expense was \$12000 for building and \$6000 for equipment.
- d) Issued \$220,000 of bonds for 8 years for exchange of land.
- e) The company sold equipment with a book value of \$14000(cost 16000 less accumulated depreciation of \$2000) for \$8000 cash.
- f) New Building costing \$240,000 and equipment for 50,000 was purchased for cash.

5. Following are the ending balances as on March 31, 2014 of Allied Corporations which commenced its business on May 1, 2013 in Dubai. (12 M)

Type of Account	Value in AED
Cash	9296
Supplies	900
Unexpired Insurance	2250
Land	26000
Building	18000
Equipment	6000
notes payable	2000
Accounts payable	1345
Income tax payable	780
Common Stock	40,000
Retained earnings	0
Dividends	7000
Unearned rent revenue	4500
Accounts receivable	3250
Income tax expense	11304
Accumulated depreciation Building	750
Accumulated depreciation Equipment	1000
Sales Revenue	85625
Miscellaneous expense	1950
Salaries expense	28400
Supplies expense	3450
Depreciation expense : Building	750
Depreciation expense : Tools and equipment	1000
Utilities expense	9700
Insurance expense	6750

Other data for adjustments given

- a) Inventory department disclosed the supplies balance as 600

- b) Insurance amount for one year was paid in May, 2013, the cost for March 2014 is to be taken.
- c) Depreciation for the long term assets is to be taken into account.
- d) Earned one third of rent revenue collected in advance from XYZ Corporation.
- e) Amount of 1950 was to be paid towards the wages of the employees.
- f) Allied corporation borrowed a loan of 2000 on February, 28 on note payable at 9% per annum. Interest amount is due for payment
- g) Revenue of 375 is earned but is not yet received.
- h) Income tax of 40 percent of the income before income tax. (Consider the income tax expense given in the data)

- I. Post the above adjustments on T accounts
- II. Show an adjusted trial balance
- III. Prepare the retained earnings statement and balance sheet as on December 31, 2013.

6. Explain briefly (3 Marks)

- a) WACC
- b) CAPM
- c) ESOP

7) Answer the following in not more than five words (6M)

- a) When a company has supplied materials to the customers on credit for 3 months but at the end of this period it is known that this is amount will not be received anymore. Under which head can this provision be made?
- b) Mention the two accounts affected with the accrual of uncollected revenue.
- c) Non availability of the raw materials for the production firm can be categorized as what type of risk.
- d) In the month of February you have made a contract to provide the service in march and as per the contract you provided the services but the payment is received in the month of April. In which month should you recognize this revenue ?
- e) Give an example of a transaction which has an increase in assets with other to decrease in asset but has no effect on stock holders' equity.
- f) This is the ratio which indicates the efficiency applied to all internal variables by the management in generating the profitability

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BITS PILANI, DUBAI CAMPUS
SECOND SEMESTER 2013- 2014

Course Code: ECON C211 **FOURTH YEAR (ELECTIVE)**

Date: 04-05-2014

Course Title: Fundamentals of Finance and Accounting

Max Marks: 20

Duration: 50 minutes

TEST 2 (Open Book)

Pages : 2

Weightage: 20%

Note: Answer all questions

I. Westside Repair Services had the following balances on March 31, 2014

<u>Account Particulars</u>	<u>Amount</u>
Cash	10,000
Accounts receivable	?
Inventory parts	4000
Prepaid rent	4000
Building	72,000
Equipment	16000
Accounts payable	3800
Paid-in capital	54000
Retained earnings	44,200
Accrued wages payable	10000

During April, the following summarized transactions occurred:

- a) Collected accounts receivable, \$6,000
- b) Rendered services to customers for cash, \$8,400
- c) Cost of inventory parts used for services rendered, \$600
- d) Yearly depreciation \$24,000 on building and \$19,200 on equipment
- e) Paid towards utility bills \$1000
- f) Partly settled accrued wages by paying \$2,000
- g) Paid cash for building repairs and maintenance \$1600
- h) Recognize rent expense for March - \$2,000
- i) Paid advance to supplier for purchase and supply of inventory parts \$1000

Prepare the following as on April 30th 2014

- a) **adjusted trial balance (5 M)**
- b) **Balance Sheet (3 M)**
- c) **Comment on the liquidity position of the Westside repairs (2M)**

II. **Comment on the following (5 Marks)**

- a) It is always advisable to finance current assets with short term loans only.
- b) The riskiest type of cost of capital is cost of debt amongst the other options.
- c) Companies always need cash for managing working capital.
- d) Importance of average collection period in the cash conversion cycle

- III. Riverton Engineering has the optimal combination of debt to 25%, preferred stock as 15% and common equity 60%, Its expected income is \$34285.72, its dividend payout ratio is 30% and the tax rate is 40%, investors expect future earnings and dividends to grow at the constant rate of 9%. Paid a dividend of \$3.60 per share last year and its stock current sells for a price of \$54.00 per share. **(4 Marks)**

Riverton obtains new capital in the following ways:

- * **Preferred stock:** new preferred stock with a dividend of \$5.5 sold to the public at \$95 per share.
 - * **Debt:** Debt can be sold at interest rate of 12%
- a) Calculate the WACC when given cost of common equity r_s is 19.36%.
 - b) Riverton has the following investment opportunities which projects it should choose and why?

Project	Cost at t=0 \$	Rate of return %
A	10,000	17.4
B	20,000	16.0
C	10,000	14.2
D	20,000	13.7
E	10,000	12.0

- IV. Time value of money is important in individual's life, what is the money you need to deposit if you expect to receive 1,000 annually for three years, each receipt occurring at the end of the year. If the discount rate is 10 per cent. **(1 Mark)**
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BITS PILANI, DUBAI CAMPUS

FIRST SEMESTER 2013- 2014

Course Code: ECON C211

Date:18-05-2014

Course Title: Fundamentals of Finance and Accounting

Max Marks: 7

Duration: 20 minutes

QUIZ 2 (Closed Book)

Weightage: 7%

NAME :

ID Number:

1.Which method of capital budgeting calculates the discount rate and forces a project's NPV to equate to zero?

2.The stream of cash flows in payback period consider the time value of money. State true or false

3. Portfolio risk increases along with increase in the number of shares in the same company. State True or False

4 If carefour considers the expansion of the two stores one in Sharjah and one in Ajman and decides one which results in rejection of the other. Then these projects are called -----.

5. Calculate the payback period when the projects exhibits outflows as (1000) followed by the inflows 200,300,400,555 in millions in AED.

6.Determine the NPV with the discount rate 15% when the cost is (200) and yields as 32.50, 30.53,79.90 million AED

7. Williamson Corporation had the following balances on its balance sheet at year end: (1 Mark)

	<u>2013</u>	<u>2012</u>
Accounts Receivable	\$300	\$445
Salaries Payable	515	475

Net income for the year was \$18,515 and depreciation expense was \$3,420. **What is the amount of net cash from operations? Show your working.**

II. Match the Column A with Column B and write your Answer in C as Ex: 1-d (3 Marks)

Column A	Column B	Column C
1. Cash Collected towards accounts receivable	a) Financing Activity Outflow	
2. Purchase of equipment	b) Operating activity inflow	
3. Strike of the workers in the production department	c) Financing activity inflow	
4. Adjusting entry for the depreciation	d) Indirect method of cash flow	
5. Standard deviation	e) Investing activity outflow	
6. Payments of the amounts borrowed	f) Operating activity outflow	
	g) Systematic risk	
	h) Unsystematic risk	
	i) Expected rate of return	

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BITS PILANI, DUBAI CAMPUS

FIRST SEMESTER 2013- 2014

Quiz –I (Closed Book)

NAME:

ID NUMBER:

Course Code: ECON C211

Date: 21-10-2013

Course Title: Fundamentals of Finance and Accounting

Max Marks: 8

Duration: 20 minutes

Weightage: 8 %

1.Sarah Corporation shows the cash balance of \$45,000 needs to make these adjusting entries only for the month of September 31, 2013. Make your entries in the given format and show the cash balance **(2.5 Marks)**

TRANSACTIONS	DEBIT	CREDIT
a) accrued salaries for three workers @50 per hour for 25 days		
b) adjust one third of unearned services revenue account of 15000 to recognize earned revenue		
c) Depreciation of the equipment worth 72000 useful life is 5 years.		
d) As on Sept 1, 2013 \$500 worth of supplies were available and additional supplies of \$250 were added but on 30 th September 2013, the available balance of supplies was \$250/-		
e) Borrowed 100,000 on note payable at 12% per annum amount is to be paid by 31, March 2013		

Indicate the effect on the following in case **the above adjustments are not done** using symbols as indicated
O= Overstated , U= understated and NE =No effect **(5 Marks)**

ERROR	TOTAL REVENUE	TOTAL EXPENSES	TOTAL ASSETS	TOTAL LIABILITY
a)				
b)				
c)				
d)				
e)				

2. CASH BALANCE Available ----- **(0.5 M)**

3. State True or False **(0.5 M)**

a) The amount collected through the sale of additional stock can be recorded as revenue by the organization

b) Debits increase assets and decrease Liabilities -----