Finance management

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Capital budgeting

- Owning a concessional kiosk at mall selling handicrafts. Have 3 years more to complete the lease period we do expect a renewal at the same concessional price.

Four proposals to increase profits

- A. add another window
- B. update the display counter
- C. build a new kiosk
- D. rent a larger kiosk at same rent fee on same floor but involving Rs 1000 upfront expense.
- Cost of capital is 15 %
- Following are the incremental cash flows predicted in the next three years for the proposals.

problem

proposal	outflow	year1	year2	year3
New window	-75000	44000	44000	44,000
Update display	-50000	23000	23000	23000
Build new kiosk	-125000	70000	70000	70000
Rent a large kiosk	-1000	12000	13000	14000
table@15%	1.000	.87	.76	.66
Which proposal to take Use NPV/IRR				

Proposal 1- new window

Proposal-window	income	factor	Pv cf
Outflow period 0	-75000	1.000	-75000
Year 1	44000	.87	38280
year2	44000	.76	33264
year3	44000	.66	28952
npv			25496

Proposal 2- update display

update	amount	factor	pvcf
outflow	-50000	1.000	-50000
year1	23000	.87	20010
year2	23000	.76	17388
year3	23000	.66	15134
npv			2532

Proposal 3 new kiosk

Project new kiosk	Amount in Rs	factor	pvcf
outflow	-125000	1.000	-125000
year1	70000	.87	60900
year2	70000	.76	52920
year3	70000	.66	46060
npv			34880

Proposal 4- rent a larger

Rent larger kiosk	Amount in rs	factor	pvcf
outflow	-1000	1.000	-1000
year1	12000	.87	10440
year2	13000	.76	9828
year3	14000	.66	9212
npv			28480

Proposal 3 is chosen

proposals	npv	Irr in %	remarks
Add new window	25496	34.6	
Update display	2532	18	
Build new	34880	31.2	
Rent a larger	28 480	1208	

Ratio analysis

Ratios	Industry std	Company x	ratio
current	2.4	2.67	Ca/cl
Debtors t/o	8.0	10	Sales/drs , 12/dto
Stock t/o	9.8	3.33	cgs/crs. 12/sto
Asset t/o	2.00	1.43	Sales/assets (dle
Net profit ratio	3.3	2.1	Np/sales
Np to assets	6.6	3.0	Np/t.assets
Np to nw	10.7	4.8	Np/nw
Debts to assets	63.5	37.7	debts/ assets

Analysis

- Current ratio is more but liquidity is affected as ca has more stock as evidence d by low stock turnover.
- Debtors turnover is better indicating a need to relax collection norms
- Stock turnover as evidenced by velocity indicates slow movement of stock/ pileup
- Low ratio indicates idle capacity and stock pileup
- High cost of production and less earnings
- Low earnings per share
- Debt lesser than equity.

Balance sheet as on----

liabilities		**assets**	
Share capital	5,00,000	Land	5,00,000
Gen. reserve	4,00,000	Plant	2,00,000
p/l account	1,50,000	STOCK	1,50,000
Crs	2,00,000	Drs	2.50,000
		Cash &bank	1.50,000
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-	12,50,000	-	12,50,000

p/l for year ended

- Op.stk 2,50,000
- Purchs 10,50,000
- G.profit c/d 6,50,000
- -----------------------------

Admin exp 2,30,000
Selling exp 1,00,000
Fin exp 20,000
Net profit 3,50,000

- Sales 18,00,000
- Cl.stk 1,50,000
- ----------------------------
- Gp b/d 650,000
- Income misc 50,000
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ratios

- Current ratio 5.5/2 = 2.75
- Quick ratio 4/2 = 2
- drs t/o 18/2.5 = 7.2
- drsVelocity = 365/7.2 =50.69=51 days
- Stk t/o = 11.5 +3.3/ 2 =5.75
- Stk vel = 365/5.75
- Np = 3.5/18
- np to capital = 3.5/10.5=.33.33

Fin analysis

- Ratio analysis
- Benchmarking
- Comparatives
- Balance score card-flic