

Reg. No

Name

19P2036

M. COM DEGREE END SEMESTER EXAMINATION - MARCH/APRIL 2019

SEMESTER 2 : COMMERCE

COURSE : 16P2COMT08 : FINANCIAL MANAGEMENT STRATEGIES

(For Regular – 2018 Admission and Supplementary – 2017/2016 Admissions)

Time : Three Hours

Max. Marks: 75

Section A

Answer any 10 (2 marks each)

1. What do you mean by Zero Working Capital?
2. What is meant by Cushion Working Capital?
3. What do you mean by Payment Deferral Period?
4. Calculate inventory turnover ratio from the following data.
Opening stock Rs 10000
Purchases Rs 36000
Closing stock Rs 6000
5. What are the various costs which affect economic order quantity?
6. How is aging schedule useful in receivables management?
7. What do you mean by Delinquency Cost?
8. What is meant by optimum cash balance?
9. What is IMPS and note its specialty?
10. What is interim dividend?
11. Mention the different forms of dividend?
12. What do you mean by retention ratio?

(2 x 10 = 20)

Section B

Answer any 5 (5 marks each)

13. Anand Ltd gives the following information. Compute the operating cycle in days.

	(Amounts)
Average debtors(outstanding)	4,80,000
Raw material consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of average stock maintained:	
Raw material	3,20,000
Work-in-process	3,50,000

Finished goods	2,60,000
Period covered	365 days
Average period of credit allowed by suppliers	16 days

14. What are the factors which determine the Maximum Stock Level?
15. An engineering company consumes 50,000 Units of component per year. The ordering, receiving and handling costs are Rs.3 per order while the trucking cost is Rs.12 per order. Interest cost is Re.0.06 per unit per year. Deterioration cost Re.0.004 per unit per annum. Storage cost Rs.1,000 per annum for 5,000 units. Calculate EOQ
16. Credit sales for the year 2012 Rs 60000
 Cash sales for the year 2012 Rs 40000
 Accounts receivables as on 1-1-2012 Rs 7000
 Accounts receivables as on 31-12-2012 Rs 5000
 Calculate the average age of receivables.
17. What do you mean by cash management ? What are the factors determining cash requirements?
18. Determine optimum cash balance according to Baumol's model.
 Total disbursement Rs. 1, 20,000 p.m., administrative & transactional cost transferring cash to disbursement account Rs. 37.50 per transfer, marketable securities earn 1 % p.m.
19. Discuss the provisions relating to dividend under Companies Act 2013.
20. YKP Ltd. has 15,000 equity shares outstanding as on date. Currently the share of the company is being traded at a price of Rs. 120 per share. It is expected that the firm would pay dividend of Rs. 5 per share in the next year. The firm has project in hand requiring new investment of Rs. 5,00,000. The shareholders' expected rate of return is 12% and the firm expected to have net profit of Rs. 2,50,000 at the end of the year. Prove that payment of dividend has no impact on the value of the firm.

(5 x 5 = 25)

Section C

Answer any 3 (10 marks each)

21. Devi Ltd, a manufacturing company gives the following details for the year 2016-17.
- | | |
|--------------------------|--------------|
| Issued share capital | Rs 10,00,000 |
| 10% debentures | Rs 5,00,000 |
| Fixed Assets (1.1.2016) | Rs 25,00,000 |
- Production during the year 2015-16 was 2,00,000 units and it is expected to continue the same. The expected ratio of cost to selling price are:
 Raw materials 40%, direct wages 20%, overhead 10%
- Past experiences reveal the following facts.
- Raw materials are expected to remain in stores on an average two months.
 - Each unit of production is expected to be in process for one month
 - Finished goods will stay in the warehouse for three months before sales.
 - Suppliers allow two months credit period after delivery of raw materials.
 - The company allows three month credit period to its customers.

Estimate the working capital requirements of the company for the year 2016-17, assuming that sale price per unit is Rs 10. The company wants to keep emergency fund of Rs 1,00,000.

22. The following information relating to an industrial component is available.

Annual consumption	-	2400 units
Purchase price	-	Rs 2.4
Ordering cost	-	Rs 4 per order
Storage cost	-	2%
Interest rate	-	5% per annum
Lead time	-	Half month

Calculate

- (a) EOQ and (b) annual inventory turnover cost in respect of the component.
23. A company plans to extend credit facilities to the following categories of customers,
 (a) Customers with a 10% risk of non-payment and
 (b) Customers with a 30% risk of non-payment.
 The incremental sales expected in the case of category(a) are Rs 1,00,000 while in the case of category(b) they are Rs 1,25,000.
 The cost of production and selling costs are 60% of sales while collection cost amount to 5% of sales in the case of category(a) and 10% of sales in the case of category(b).
 You are required to advise the company about extending credit facilities to each of the above categories of customers.
24. Sony corporation has annual sales Rs 10,00,000 and is currently extending 30 days credit. The company wants to pursue a more liberal policy to improve sales. The following information is available.

Credit policy	Average collection period	Annual sales(Rs)
1	45 days	10,60,000
2	60 days	11,00,000
3	75 days	11,20,000
4	90 days	11,30,000

The average collection period is now 30 days. Variable cost 60% of sales and Fixed cost Rs 80,000 p.a.

Required rate of return (pre-tax) 20%

Assume 360 days in a year, determine which policy should the company adopt?

25. What is dividend policy? What is the need for an effective dividend policy?

(10 x 3 = 30)