Reg. No ..... Name .....

M. COM DEGREE END SEMESTER EXAMINATION - MARCH 2020

SEMESTER 2 : COMMERCE

COURSE : **16P2COMT08 : FINANCIAL MANAGEMENT STRATEGIES**

(For Regular - 2019 Admission & Supplementary 2018/2017/2016 Admissions)

Time : Three Hours Max. Marks: 75

Section A

Answer any 10 (2 marks each)

1. What do you mean by floating capital?
2. What is meant by Cushion Working Capital?
3. Mention the methods which are used in estimating working capital requirement?
4. What do you mean by safety stock?
5. What are the major components of carrying costs?
6. What do you mean by CEM?
7. What are the limitations of Factoring?
8. List out the motives for holding cash.
9. How credit policy affects the liquidity?
10. What is bonus share?
11. What do you mean by 'Declining firms'?
12. Define dividend policy.

(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 supplers	16 days

14. Prepare stores ledger account under Weighted average method from the following transaction details.

2016 March 1 Purchased 100 units @ Rs 10 each
2 Purchased 200 units @ Rs 10.20 each
5 Issued 250 units
7 Purchased 200 units @ Rs 10.5 each
10 Purchased 300 units @ Rs 10.8 each
25 Issued 150 units

15. What do you mean by stock velocity? How is it calculated?
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 CEM? Illustrate with an example.
18. Niveeta Enterprises decides to liberalise credit to increase its sales. The liberalized credit policy will bring additional sales of Rs 30000.Variable cost is 60% of sales. Will the company benefit from the new policy if the bad debt cost and collection costs are 10% and 5% respectively?
19. What are the basic principles of cash management?
20. EPS of a company is Rs. 14. The market capitalisation rate is 12.5%.
    Retained earnings can be employed to earn a return of 10%. The company is considering a payout ratio of a) 25%, b) 50%, c) 75%. Which of these would maximise the shareholders wealth as per Walter's Model?

(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.

    a. Raw materials are expected to remain in stores on an average two months.
    b. Each unit of production is expected to be in process for one month
    c. Finished goods will stay in the warehouse for three months before sales.
    d. Suppliers allow two months credit period after delivery of raw materials.
    e. 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. What do you understand by JIT? Explain its objectives and relevance?
23. Karthika Ltd is considering a proposal for liberal credit policy which will increase sales by 25%.However this will increase the ACP from one month to two months. The firm's return on investment is 20%.The following details are available

a. Sales	Rs 120000
b. Selling price per unit	10
c. Variable cost per unit	7
d. Total cost per unit	9

    Based on the above you are required to advice the company as to whether the company should accept the new policy or not.

24. Prepare a monthly forecast for the company for the quarter July-September 2017.

    i. Opening balance as on 1st July is Rs. 1,00,000
    ii. It is estimated that the sale for July and August is Rs. 10, 00,000 each and for the month of September it will be Rs. 15, 00,000. The sale for May and June was Rs. 10, 00,000 in each month.
    iii. Cash and credit sale is estimated at 25% and 75% respectively.
    iv. The receivables from credit sales are expected to be collected as follows. 50% of the receivables on an average of 1 month from the date of sale and balance 50% after 2 month from date of sale. There are no bad debts on the realization of sales.
    v. Rs. 5, 00,000 is expected from the sale of a machine in September.

    The forecast of payments is as follows:

    a. Purchase of materials worth Rs. 3, 00,000 each in July and August and materials worth Rs. 4, 50,000 in September.
    b. The payments for these purchases will be made 1 month after the purchase. The purchases of June were materials worth Rs. 4, 00,000 the payment of which will be made in July.
    c. There are miscellaneous cash purchases of Rs. 50,000 per month.
    d. The wage payments are expected to be Rs. 70,000 per month.
    e. Manufacturing expenses are Rs. 40,000 every month.
    f. General selling expenses are expected to be Rs. 40,000 per month.
    g. A machine worth Rs. 7,50,000 is proposed to the purchased in September.

25. The following information is available in respect of Laxmi Ltd:
    Earning per share Rs.20
    Cost of Capital 10%
    Find out the market price of the share under different rates of return, r, of 8%, 10% and 15% for different payout ratios of 40%, 80% and 100%.
    Use Gordon's Model.

(10 x 3 = 30)