

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

**M. COM. DEGREE END SEMESTER EXAMINATION APRIL 2017**  
**SEMESTER - 2: COMMERCE**  
**COURSE: 16P2COMT08 -: FINANCIAL MANAGEMENT STRATEGIES**  
(For Regular - 2016 admission)

Time: Three Hours

Max. Marks: 75

**SECTION-A**

Answer **any TEN** questions. Each question carries **2** marks.

1. What is Operating Cycle?
2. What is Proportional Value Analysis?
3. What is Factoring?
4. What do you mean by Hedging approach?
5. What do you mean by Control of Receivables?
6. What is Lock-Box system?
7. What is Gordon's model of dividend policy?
8. Distinguish between Reserve Capital and Capital Reserve
9. Kedhar Ltd. needs Rs. 30,00,000 to meet its cash requirements for the quarterly operations. The company holds marketable securities for the amount. The annual yeild on securities has been worked out at 20%. The company has to incur a cost of Rs. 3,000 for each conversion of marketable securities into cash. Compute the optimum cash by using Baumol's Model. Also find out average cash balance.
10. The finance department of a Corporation provides the following information:
  - i) The carrying costs per unit of inventory are Rs. 10.
  - ii) The fixed costs per order are Rs. 20.
  - iii) The number of units required is 30,000 per year.Determine the economic order quantity (EOQ), total number of orders in a year and the time gap between two orders.
11. SN Ltd. plans to liberalise credit to increase its sales volume. The company expects that it will bring an additional sales of Rs. 6,00,000. The variable costs will be 70% of the sales and there will be 10% risk for non payment and 5% collection costs. Should the firm relax the credit policy?

12. PQR Ltd gives the following information

i) Debtors are collected after 30 days. Inventories have a holding period of 60 days and creditor

payments period is 30 days.

ii) The firm spends Rs 90,00,000 annually at a constant rate.

iii) It can earn on an average 10% on its investments. Assuming 360 days operating days in a year, compute:

a) Cash cycle and the cash turnover

b) Minimum amount of cash to meet payments when they are due

c) Savings by reducing average inventory period by 20 days

(2 x 10 = 20)

### SECTION-B

*Answer **any FIVE** questions. Each question carries **5** marks.*

13. What is the significance of Working capital for a manufacturing firm? What will be the consequences of shortage and excess of working capital?

14. What is a stable dividend policy? Explain the distinct forms of dividend stability

15. What do you mean by Cash Management? What are the motives for holding Cash? Explain.

16. Explain the costs- benefits analysis of receivables

17. A company belongs to a risk class for which the approximate capitalisation rate is 10 percent. It currently has outstanding 25,000 shares selling at Rs 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. It expects to have a net income of Rs. 2,50,000 and has a proposal for making new investments of Rs 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm.

18. From the details given below ,calculate:

i) Re-ordering level

ii) Maximum level

iii) Minimum level

iv) Danger level

Re-ordering quantity is to be calculated on the basis of the following information:

Cost of placing a purchase order is Rs 20

Number of units to be purchased during the year is 5,000

Purchase price per unit inclusive of transportation cost is Rs.50

Annual cost of shortage per unit is Rs.5

Details of lead time: Average 10 days, Maximum 15 days and minimum 6 days. For emergency purchases 4 days

Rate of consumption: Average 15 units per day, Maximum 20 units per day

19. The following is an extract of the record of receipts and issues of sulphur in a chemical factory during June 2016:

2016 June 1 Opening balance 100 tons @ Rs. 200

8 Issued: 50 tons .

14 Received from supplier 40 tons @ Rs. 190

17 Issued: 36 tons

21 Received from supplier 48 tons @ Rs. 180

24 Issued: 60 tons

25 Returned to suppliers 10 tons out of goods received on 21<sup>st</sup> June

26 Received from supplier 64 tons @ Rs. 190

29 Issued: 40 tons

30 Returned from department 6 tons @ Rs. 190

The stock verifier of the factory had found a shortage of 2 tons on 23<sup>rd</sup> June and left a note accordingly. You are required to prepare stores ledger account under FIFO method.

20. Compute the duration of the operating cycle from the following data of Himalaya Ltd.

Stocks:

Raw materials 40,000

Work-in-process 28,000

Finished goods 42,000

Purchase of raw materials 1,92,000

Cost of goods sold 2,80,000

Sales	3,20,000
Debtors	64,000
Creditors	32,000

Assume 360 days per year for computations purposes.

(5 x 5 = 25)

### SECTION-C

Answer **any THREE** questions. Each question carries **10** marks.

21. What is working capital? What are the determinants of working capital of a firm? Explain.
22. What are the essentials of Walter's dividend model? Explain its shortcomings.
23. The summarised balance sheet of Ashok Ltd. as on 31.3.2016 is given below. Compute the additional working capital required by the company for the year ending 31.3.2017.

#### Fixed Assets:

Land and buildings	12,50,000	
Plant and machinery	7,50,000	20,00,000

#### Current Assets:

Stock	20,00,000	
Debtors	7,50,000	
Cash and bank	5,00,000	32,50,000

#### Less: Current Liabilities:

Creditors	8,50,000	
Taxation	2,00,000	
Bank overdraft	3,50,000	
Bills payable	4,00,000	18,00,000
Working Capital		<u>14,50,000</u>

**34,50,000**

Additional information :

- a) It is estimated that sales will increase by 25% next year.
- b) Maximum amount of overdraft that can be availed will be only Rs. 4,00,000.
- c) There will be no increase in the liability for tax due to increase in sales.

d) Period of credit allowed to customers and stock turnover will remain unchanged.

e) Period of credit allowed by creditors and that for bills payable will remain the same.

f) There will be no increase in the amount of cash and bank balance.

24. From the following data pertaining to AG Ltd, prepare a cash budget for the quarter ending June

2016.

<b>Month</b>	<b>Sales</b>	<b>Purchases</b>	<b>Wages</b>	<b>Miscellaneous</b>
February	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

Additional Information:

Sales : 20% realised in the month of sales, discount allowed 2%. Balance realised equally in two

Subsequent months.

Purchases: These are paid in the month following the month of supply.

Wages: 25% paid in arrears following month.

Miscellaneous expenses. Paid a month in arrears.

Rent: Rs.1,000 per month paid quarterly in advance due in April.

Income-tax : First instalment of advance tax Rs .25,000 due on or before 15th June.

Income from investments: Rs 5,000 received quarterly, in April, July, etc.

Cash in hand: Rs.5,000 on 1<sup>st</sup> April, 2016.

25. A firm sells 80,000 units of its product per annum at the rate of Rs.35 per unit. The average cost per unit is Rs. 30 and the variable cost per unit is Rs. 25. The average collection period is 90 days. Bad debt losses are 3% of sales and collection costs amount to Rs.15,000. The firm is considering a proposal to follow a stricter collection policy which would reduce bad debt losses to 1% of sales and average collection period to 60 days. It would however, reduce sales volume by 1,000 units and increase the collection expenses to Rs.25,000. The firm's rate of return is 20%. Will you recommend the new policy? Assume 360 days for calculation purposes.

(10 x 3 = 30)

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