

M COM DEGREE END SEMESTER EXAMINATION MAY - 2015**M COM SEMESTER 2****COURSE CODE: P2COMT08 - FINANCIAL MANAGEMENT****STRATEGIES**

Time 3 Hours

Max. Marks: 75

SECTION AAnswer **all** questions, each question carries **2** marks.

1. What is hardcore working capital?
2. What is lethargy?
3. What is dividend payout ratio?
4. What is scrip dividend?
5. What is credit policy?
6. Calculate EOQ from the following information. Also calculate the number of orders to be placed in a year.
Annual consumption 10,000 Kg
Cost of placing an order Rs.50
Cost per Kg. of material Rs.2
Storage cost 8% on average inventory.
7. What is VED analysis?
8. What do you mean by re-order point?
9. The current price of a company's share is Rs.200. the company is expected to pay a dividend of Rs. 5 per share next year with an annual growth rate of 10%. If an investor's required rate of return is 12%, should he buy the share?
10. What is postal float?

(2 x10 = 20)

SECTION BAnswer **any five** questions each carries **5** marks

11. What is lock box system? How does it help to reduce the cash balances?
12. What are the legal restrictions on the payment of dividend?
13. What are the motives for holding cash?
14. A company's total investment in assets is Rs. 10,000,000. It has 1,00,000 shares of Rs. 100 each. Its expected rate of return on investment is 30% and cost of capital is 18%. The company has a policy of retaining 25% of its profits. Determine the value of the firm using Gordon's model?

15. A firm having an annual opportunity cost of 15% is contemplating installation of a lock box system at an annual cost of Rs.3,00,000. The system is expected to reduce mailing time by 4 days and reduce cheque clearing time by 3 days. If the firm collects Rs.4,00,000 per day, would you recommend the system.
16. Ace Ltd. manufactures a product and the following particulars are collected for the year ended march 2010.

Monthly demand	1,000 units
Cost of placing an order	Rs.100
Annual carrying cost	Rs.15 per unit
Normal usage	50 units per week
Minimum usage	25 units per week
Maximum usage	75 units per week
Re-order period	4-6 weeks

You are required to calculate re-order quantity, minimum stock level, maximum stock level, re-order level.
17. High Vision Ltd has current sales of Rs.20,00,000. The company is planning to introduce a cash discount policy of 2/10, net 30. As a result, the company expects the average collection period to go down by 10 days and 80% of the sales opt for the cash discount facility. If the company's required rate of return on investment in receivables is 20%, should it introduce the new discount policy?
18. From the following data, compute the duration of the operating cycle for each of two years and comment on the increase or decrease.

Stock:	Year 1	Year 2
Raw materials	Rs 20,000	Rs 27,000
Work -in- process	14,000	18,000
Finished goods	21,000	24,000
Purchase of raw material	96,000	1, 35,000
Cost of goods sold	1, 40,000	1, 80,000
Sales	1, 60,000	2, 00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

(Assume 360 days per year for computation purposes.)

(5 x 5 = 25)

Section C

Answer **any two** questions, each carries **15** marks

19. Briefly explain the relevance and irrelevance concepts of dividend.
20. X Ltd. currently has an annual turnover of Rs.20 lakhs and an average collection period of 4 weeks. The company proposes to introduce a more liberal credit policy which they hope will generate additional sales as shown below.

Credit policy	Increase in		Percentage of default
	Collection period	Sales(Rs.)	
1	2weeks	2,00,000	2%
2	4	2,50,000	3%
3	6	3,50,000	5%
4	8	5,00,000	8%

The selling price of the product is Rs.10 and the variable cost per unit is Rs.7. the current bad debt loss is 1% and the desired rate of return on investment is 20%. For the purpose of calculation, a year is to be taken to comprise of

52 weeks. Indicate which of the above policies you would recommend the company to adopt.

21. From the following information you are required to prepare projected balance sheet and projected P/L A/C and then estimate the working capital requirement.

Issued share capital 3, 00,000

6% debentures 2, 00,000

Fixed assets at cost 2, 00,000

The expected ratios to selling price are raw materials 50%

labour 20%

Overhead 20%

Profit 10%

Raw materials are kept in store for an average of 2 months

Finished goods remain in stock for an average period of 3 months

Production during the previous year was 1, 80,000 units and it is planned to maintain the same in the current year also.

Each unit of production is expected to be in process for half a month.

Credit allowed to customers is 3 months and given by suppliers is 2 months.

Selling price is Rs.4 per unit.

There is a regular production and sales cycle.

Calculation of debtors may be made at selling price

22. X Ltd . is forseeing a growth rate of 12% p.a in the next 2 years. The growth rate is likely to fall to 10% for the third and fourth year. After that the growth rate is expected to stabilize at 8% p.a. if the last dividend paid was Rs.1.50 per share and the investor's required rate of return is 16%, find out the intrinsic value per share of X Ltd.

Years	0	1	2	3	4	5
P.V factor	1	0.86	0.74	0.64	0.55	0.48

at 16%						
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(15 x 2 = 30)
