Reg. No.:....................................... Name : **P234**

M.Com DEGREE END SEMESTER EXAMINATION APRIL 2016

SEMESTER**: 2; COMMERCE**

COURSE :- P2COMT08 - FINANCIAL MANAGEMENT STRATEGIES

(Common for Regular- 2015 Admission /Supplementary-2014 Admission)

Time Three Hours Max.Marks:75

Section A

Answer ***all*** questions, each question carries **2** marks.

1. What is operating cycle?
2. What is a cash budget?
3. What is payment float?
4. What is stable dividend policy?
5. What are the sources of working capital?
6. Ajanta Ltd. made sales of Rs.30, 00,000 for the year 2010 and its corresponding debtors is Rs. 4, 90,000. Calculate debtors turnover in terms of days.
7. What is factoring?
8. What do you mean by inventory turnover ratio?
9. A company has daily receipt of Rs.5,00,000. It is expected that the system of concentration banking would reduce the receivable by 4 days and the system would cost Rs.25, 000. Is it acceptable if the firm earns 10% p.a on its investment?
10. What is cushion working capital?

(2 x 10 = 20)

Section B

Answer **any *five*** questions, each carries **5** marks

11. What are the methods for estimating working capital requirement?
12. What are the techniques of accelerating cash inflows?
13. Explain the techniques of receivable management.

14. Capitalization rate -10%, EPS-Rs.12, assumed rate of return on investment16%, 8% and 10%. Show the effect of dividend policy on market price of shares using Walter's model at the following payout ratio 0%, 50% and 100%.

15. Kerala Ltd sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st March 2012

Sales (3months credit)	Rs. 40, 00,000
Raw materials	Rs. 12, 00,000
Wages (15 days in arrears)	Rs. 9, 60,000
Manufacturing expenses (one month in arrears)	Rs. 12, 00,000
Administration expenses	Rs. 4, 80,000

Sales promotion expenses (payable half yearly in advance) Rs. 2, 00,000 .The company enjoys one month's credit from suppliers of raw materials and maintains two months stock of raw materials and Three months finished goods. Cash balance is maintained at Rs. 1, 00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of Kerala Ltd.

16. A company is currently selling 1,00,000 units of product at Rs.50 each. At the current level of production, the cost per unit is Rs. 45, variable cost is Rs.40. the company is currently extending one month's credit. The company is thinking of extending credit period to two months in the expectation that sales will increase by 25%. If the required rate of return on the firm's investment is 20%, is the new credit policy desirable?

17. ABC Company buys in lot of 125 boxes which is a three months supply. The cost per box is Rs. 125 and the ordering cost is Rs.250 per order. The inventory carrying cost is estimated at 20% of unit value per annum.

You are required to ascertain-

(i) What is the total annual cost of the existing inventory policy?

(ii) How much money would be saved by employing the EOQ?

18. From the following data, calculate the Minimum and Maximum stock levels.

Maximum usage in a month 300 numbers

Minimum usage in a month 200 numbers

Average usage in a month 225 numbers

Time lag for procurement of materials: Maximum-6 months; Minimum-2 months

Reorder quantity 750 numbers.

Section C

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

19. Briefly explain the relationship between dividend policy and the value of the firm.

20. A company currently has an annual sale of Rs. 5, 00,000 and an average collection period of 30 days. The company is considering a more liberal credit policy. If the collection period is extended, sales are expected to increase as well as the chances of bad debts in the following manner.

Credit policy	Increase in collection period	Increase in sales	Percentage default
A	10 days	Rs.25,000	2%
B	15 days	Rs.35,000	4%
C	30 days	Rs.38,000	7%
D	45 days	Rs.40,000	12%

The selling price per unit Rs.2. Average cost per unit at current level is Rs.1.50 and Variable cost per unit Rs.1.20. if the current bad debt loss is 1% and the required rate of return on investment is 20%, which credit policy should be undertaken. (Assume a 360 -day year).

21. Kairali Finance Ltd. has 15000 equity shares outstanding as on date. Currently the share of the company is being traded at a price of Rs. 125 per share. It is expected from the firm would pay dividend of Rs.5 per share in the next year. The firm has a 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. Explain the MM model that the payment of dividend has no impact on the value of the firm.

22. A company has the option to procure a particular material from two sources: Source I assure that defectives will not be more than 2% of supplied quantity. Source II does not give any assurance, but on the basis of past experience of supplies received from it, it is observed that defective percentage is 2.8%. The material is supplied in lots of 1,000 units. Source II supplies the lot at a price, which is lower by Rs. 100 as compared to source I. the defective units of material can be rectified for use at a cost of Rs.5 per unit. You are required to find out which of the two sources is more economical.

(15 x 2 = 30)

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