Reg. No .... Name **21P2036**

M. COM. DEGREE END SEMESTER EXAMINATION - JULY 2021

SEMESTER 2 : COMMERCE

COURSE : 16P2COMT08 : FINANCIAL MANAGEMENT STRATEGIES

(For Regular - 2020 Admission and Supplementary - 2019/2018/2017/2016 Admissions)

Time : Three Hours Max. Marks: 75

PART A
Answer any 10 (2 marks each)

1. What is hard core working capital?
2. Explain briefly Conservative working capital policy.
3. Write a short note on Aggressive working capital policy.
4. What is meant by Cushion Working Capital?
5. What do you mean by Shortage Cost?
6. What are the major components of carrying costs?
7. What do you mean by Line Of Credit?
8. What do you mean by Delinquency Cost?
9. What do you mean by cash cycle?
10. What is meant by optimum cash balance?
11. Mention the different forms of dividend?
12. What is a declining firm?

(2 x 10 = 20)

PART B
Answer any 5 (5 marks each)

13. Explain Projected Balance Sheet Method for estimating working capital.
14. 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

15. Calculate EOQ from the following information. Also state the number of orders to be placed a year.
    Consumption of materials per annum-40000 kg
    Storage cost - 8% of average inventory
    Ordering cost per order –Rs 12.5
    Cost per kg of material - Rs 2
16. What are the factors which determine the Maximum Stock Level?

17. 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.

18. Prepare a Cash Budget from the data given below for a period of six months (July to December)

1. **Months** | **Sales** | **Raw Materials**

Months	Sales	Raw Materials
May	75,000	37,500
June	75,000	37,500
July	1, 50,000	52,500
August	2, 25,000	3, 67,500
September	3, 00,000	1, 27,500
October	1, 50,000	97,500
November	1, 50,000	67,500
December	1, 37,500	____

2. Collection estimates:

- Within the month of sale: 5%
- During the month following the sale: 80%
- During the second month following the sale: 15%

(3) Payment for raw materials is made in the next month.
(4) Salary Rs. 11,250, Lease payment Rs. 3750, Misc. Exp. Rs. 1150, are paid each month
(5) Monthly Depreciation Rs. 15,000
(6) Income tax Rs. 26,250 each in September and December.
(7) Payment for research in October Rs.75, 000
(8) Opening Balance on 1st July Rs.55, 000.

Restructure the credit and payment policies of the firm in case of deficit, if any, without affecting existing sales and operations. Also make sure that, it will be more beneficial to the firm.

19. What is ploughing back of profit? Which are factors influencing internal financing?

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)

PART C
Answer any 3 (10 marks each)

21. Explain the different methods of estimating working capital requirements.

22. The following information has been extracted from the records of a company:

Product cost sheet	Rs/unit
Raw materials	45
Direct labour	20
Overheads	40
Total cost	105
Profit	15
Selling price	120

Raw materials are in stock on an average of two months.
The materials are in process on an average for 4 weeks. The degree of completion is 50%.
Finished goods stock on an average is for one month
Time lag in payment of wages and overheads is 1 $_{1/2}$ weeks.
Time lag in respect of proceeds from debtor is 2 months.
Credit allowed by suppliers is one month.
20% of the output is sold against cash.
The company expects to keep a cash balance of Rs. 1,00,000
Take 52 weeks per annum.
The company is poised for a manufacture of 1,44,000 units in the year.
You are required to prepare a statement showing the working capital requirement of the company.

23. A company plans to manufacture and sell 400 units of a domestic appliance per month at a price of Rs. 600 each. The ratio of costs to selling price are as follows:

Raw materials	30%
Packing materials	10%
Direct labour	15%
Direct expense	5%

Fixed overheads are estimated at Rs.4,32,000 per annum. The following norms are maintained for inventory management:

Raw materials	30 days
Packing materials	15 days
Finished goods	200 units
Work-in-progress	7 days

Other particulars are given below:

a) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.
b) Creditors allow 21 working days credit payment
c) Lag in payment of overheads and expenses is 15 working days
d) Cash requirements to be 12% of net working capital
e) Working days in a year are taken as 300 for budgeting purpose.

Prepare a working capital requirement forecast for the budget year

24. ABC Ltd uses inventory turnover ratio as one measure to evaluate the performance of the production manager. Currently its inventory turnover ratio is 10 times per annum. (industrial average is 4 times). Average sales are Rs. 4,50,000 per annum. Fixed cost Rs. 10,000 and percentage of variable cost is 70% of sales, carrying cost of inventory is 5% per annum. Sales force complained that low inventory levels are resulting in loss of sales due to stock outs. Sales manager estimates as under.

Inventory policy	Inventory turnover	Sales (Rs)
A	8	5,00,000
B	6	5,40,000
C	4	5,65,000

Based on the above estimates, assuming 50% tax rate and after-tax return of 25% on investment in inventory, which policy would you recommend?

25. Lignite Ltd. has a present annual sales volume of 10,000 units and at the sales value of 30lakh. The variable cost is Rs.200 per unit and fixed cost is Rs.3lakh the company allows one month credit period. The company is considering a change in the credit policy to increase the credit period to two months and three months however the company has made the following estimates

Credit period	1 months	2 months	3 months
increased sales	-	15%	30%
% of bad depts	1%	3%	5%

There will be increase in fixed cost by Rs.50,000 on account of increase in sales beyond 15% of the present level. The company expects a pre tax return of 20% on investment in receivables. You are required to find out the most prefereble credit policy for the company.

(10 x 3 = 30)