Reg. No .... Name **18P236**

M. COM DEGREE END SEMESTER EXAMINATION- APRIL 2018

SEMESTER 2 : COMMERCE

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

(For Regular - 2017 Admission & Supplementary - 2016 Admission)

Time : Three Hours Max. Marks: 75

Section A
Answer any 10 (2 marks each)

1. What is meant by Variable Working Capital?
2. Write a short note on Aggressive working capital policy.
3. What do you mean by Payment Deferral Period?
4. What are the benefits of holding inventory?
5. What are the merits of VED analysis when compared to ABC analysis?
6. What do you mean by DTR?
7. What are the advantages of factoring?
8. What do you mean by float?
9. List out the motives for holding cash.
10. What is bond dividend?
11. PK Ltd. has EPS Rs. 15 and it paid Rs. 10 per share as dividend. The current market price of its equity shares is Rs. 70. The company belongs to an industry in which the normal capitalization rate is 17 %. Find out the price of share under Walter's model, when company pays a dividend of Rs.10 per share.
12. What is residual theory of dividend?

(2 x 10 = 20)

Section B
Answer any 5 (5 marks each)

13. Explain Cash Flow Forecast Method for estimating working capital.
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. Determine EOQ from the following data.
    Annual consumption - 400 units
    Cost per unit - Rs 30
    Cost of placing order - Rs 200
    Rent and taxes -Rs 1
    Annual return on investment -10%
16. What are the different factors influencing Receivables?
17. A firm is considering to offer 30 days credit to its customers. The firm likes to charge them an

immediate payment. How much should the discount rate be?

18. The capitalization rate of JG Ltd. is 15 % and its current market value is estimated at Rs. 80, 00,000 at the rate of Rs. 100 per share. The company proposes to declare dividend Rs. 5 per share at the end of the financial year. The company expects earnings of Rs. 25, 00,000 and intends to start a new project of Rs. 40, 00,000. You are required to prove that dividend payment has no effect on the total value of the company, as suggested by MM theory.

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

20. The following information is available in respect of Royal Ltd.
Capitalisation rate = 10%
Earnings per share = Rs. 15
Assumed rate of return on investment:
(i)16%, (ii)8%, (iii)10%
Show the effect of dividend policy on market price of a shares using Walter's model at the following payout ratios:
(a) 0%, (b) 50%, (c) 75%, and (d) 100%.

(5 x 5 = 25)

Section C
Answer any 3 (10 marks each)

21. Oasis Ltd. produces 1,56,000 units per annum.The company gives the following details.

Cost per unit	(Rs)
Raw Materials	90
Direct Labour	40
Overhead	75
Total Cost	205
Profit	60
Selling Price	265

Additional information:
(1) Raw materials are in stock on an average for one month and materials are in process on an average for 2 weeks.Finished goods are in stock for one month.
(2) Credit allowed by suppliers-one month and delay in payment from debtors-2 months.
(3) Lag in payment of wages 2 weeks and in payment of overhead one month.
(4) Cash in hand and at bank is expected to be Rs 60000.
All sales are on credit and production is carried on evenly throughout the year. Wages and overhead,accrue evenly. For calculations, 4 weeks is equivalent to a month.

22. Soumya enterprises require 1,80,000 units of certain items annually. The cost per unit is Rs 3.The cost per purchase order is Rs 300 and the inventory carrying cost is Rs 12 per unit per year.
(a) What is EOQ?
(B) What the firm should do, if the suppliers offer discount as detailed below.

Order quantity	**Discount**
4500-5999	2%
6000 or above	3%

23. Explain the Costs-Benefits analysis of Receivables?

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.

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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)

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