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VI Semester B.Com. Degree Examination, April/May 2019

(Credit Based Semester Scheme)

(2016-17 batch onwards)

COMMERCE

Financial Management – II

Time : 3 Hours]

[Max. Marks : 120

Instructions : Provide working notes wherever necessary.

SECTION – A

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(4 × 6 = 24)

Answer **any four** questions :

1. Madhura limited achieved an EPS of ₹ 8. Its cost of capital is 15% and Rate of Return is 20%.

Determine its market price on the basis of Walter's Model when the dividend pay-out ratio is :

(a) 25%

(b) 50%

2. Kishan and company issued equity shares of ₹ 10 each anticipating a share issue expenses of 20% on face value of the share. It is planning to declare a dividend of 30% for the current year. Calculate the cost of equity (a) if the shares are issued at par (b) if the shares are issued at a premium of 50%.

3. Following is the Balance sheet of Keshnikar Ltd., as on 31-3-2018.

31-3-2017 ₹	Liabilities	31-3-2018 ₹	31-3-2017 ₹	Assets	31-3-2018 ₹
1,00,000	Share capital	1,00,000	57,500	Fixed assets	52,500
17,500	Profit and Loss a/c	32,500	40,000	Investments	75,000
25,000	Debentures	25,000	60,000	Current assets	50,000
15,000	Creditors	20,000			
<u>1,57,500</u>		<u>1,77,500</u>	<u>1,57,500</u>		<u>1,77,500</u>

Prepare Comparative Balance Sheet.



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- 4. Explain any four functions of Treasury Management.
- 5. What is Operating Cycle? How it is calculated?
- 6. What are the activities of a 'Sponsor' of a Mutual Fund?

SECTION - B

(4 × 12 = 48)

Answer any four questions :

- 7. From the following data pertaining to a company. Compute operating cycle.

Particulars	Amount for the year (₹)
Stocks :	
Raw materials	35,000
Work-in-progress	20,000
Finished goods	25,000
Purchase of raw materials	1,05,000
Cost of goods sold	2,00,000
Sales	2,25,000
Debtors	75,000
Creditors	35,000

Also estimate the size of working capital based on operating cycle. You can assume 360 days in a year for the purpose of calculation.

- 8. The financial details of eight fertilizer companies for the year 2018-19 are given below along with expected growth rates. Calculate their cost of equity shares.

Sl. No.	Company	Face Value (₹)	Dividend (%)	Market Price (₹)	Estimated Growth Rate (%)
1	A Co. Ltd.	10	18	34	4
2	B Co. Ltd.	2	85	77	6
3	C Co. Ltd.	2	225	281	8
4	D Co. Ltd	10	38	103	5
5	E Co. Ltd	10	20	78	5
6	F Co. Ltd	10	15	190	6
7	G Co. Ltd	10	10	34	4
8	H Co. Ltd	10	18	234	7



9. Apply Modigliani-Miller model to determine the share prices of the following companies after the declaration of dividend.

Company	Face Value (₹)	Price before declaration of dividend	Dividend per share	Cost of Equity (%)
A	10	81	5	8
B	10	123	8	12
C	10	425	15	11
D	10	75	6	7
E	10	135	10	6

10. X Ltd., provide the data about the sales and inventory for a period of six years. Determine the trend values keeping the earliest years' figures as the basis.

Year	Sales (₹ in Crore)	Inventory (₹ in Crore)
2012	1,100	220
2013	1,100	210
2014	1,700	280
2015	1,900	360
2016	2,500	480
2017	2,300	400
2018	2,000	410

11. What are the methods for improving the liquidity position of a company?
12. What is an Asset Management Company? What are the features of an Asset Management Company?



SECTION - C

Answer **any two** questions :

(2 × 24 = 48)

13. The proforma cost sheet of a company shows the following particulars :

Elements of cost	Amount per unit (Rs.)
Raw materials	70
Direct labour	30
Overheads	50
Total cost	<u>150</u>
Profit	<u>50</u>
Selling price	<u>200</u>

The following particulars are available :

- (a) Raw materials are in stock on an average for two months
- (b) Materials are in process on an average for one month
- (c) Finished goods are in stock on an average for two months
- (d) Credit allowed by creditors is two months
- (e) Credit allowed to customers is two months
- (f) Lag in payment of wages and overhead expenses is one month
- (g) 1/4 of the output is sold for cash
- (h) Cash in hand is expected to be Rs. 30,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 100000 units of production.

14. The following information has been extracted from the Balance Sheet of Mr. Prajwal as on 31-12-2018.

Equity share capital	₹ 400
12% Debentures	₹ 400
18% Term Loan	₹ 1,200
	<u>₹ 2,000</u>

- (a) Determine the weighted average cost of capital of the company, if it had been paying dividend at a consistent rate of 20% per annum.
- (b) What difference will it make, if the current price of ₹ 100 share is ₹ 160.
- (c) Determine the effect of income tax on the cost of capital under both premises (Tax rate is 40%).

5. The following details are presented relating to a firm.

	April (Actual) ₹	May (Estimated) ₹	June (Estimated) ₹
Wages and Salaries	2,90,000	3,00,000	4,10,000
Sales	12,00,000	14,00,000	16,00,000
Purchases	5,00,000	6,00,000	8,00,000
Excise duty	40,000	50,000	60,000
Income tax	Nil	Nil	30,000
Closing balance of Cash	4,50,000	?	?

- (a) 50% of wages and salaries are payable in the next month
- (b) 50% of purchases represent credit purchase. Out of the credit purchases, 50% is payable in the same month, 25% one month after (next month) and remaining 25% after two months
- (c) 50% of sales represent credit sales. Out of the credit sales, 60% are received in the same month at the cash discount of 2%, 20% is received in the next month at a cash discount of 1% and remaining 20% after two months without any cash discount
- (d) Excise duty of each month is payable in the next month
- (e) In April, the firm invested ₹ 9,00,000 into Fixed Deposit with State Bank of India @ 4% interest for 3 months. The interest is payable by the bank every month

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- (f) An old machine is sold in April for ₹ 1,25,000. The cash is expected to be received in May
- (g) A new machine is expected to be purchased in May for ₹ 2,00,000 for which payment is expected to be made in June.

Prepare the Cash Budget for May and June.

16. Explain the factors affecting the Dividend Policy of a firm.

Sri. Tharmasthala Manjunatheswara
College of Business Management
BANGALORE - 560 003