Reg. No. | | | | | | | | | |

BCMCMC 363

Credit Based Sixth Semester B.Com. Degree Examination, Sept./Oct. 2020
(Common to all Batches)
COMMERCE
Financial Management – II

Time : 3 Hours   Max. Marks : 120

SECTION – A

Answer **any four** questions. **(4×6=24)**

1. Explain the types of working capital.

2. What are the effects of cash deficit ?

3. Describe different types of mutual fund schemes based on the structure.

4. KXZ Ltd. issued 100000 Preference shares of Rs. 100 each. They are redeemable after 5 years at a premium of 5% and carry a dividend of 12%. Share issue expenses amounted to Rs. 2,00,000. Calculate the cost of preference shares : (a) If they are issued at 5% discount (b) If they are issued at 5% premium.

5. Xenova Ltd. achieved an EPS of Rs. 20 for the year. Its cost of equity was 15% and the rate of return was 18%. The dividend payout ratio was 20%. Calculate market price of the share using Gordon's model. What will be the share price if the payout ratio was increased to 50% ?

6. From the following Balance Sheet of Gixtz Ltd. prepare a Comparative Balance Sheet.

Liabilities	**31-3-2018 Rs.**	**31-3-2019 Rs.**	**Assets**	**31-3-2018 Rs.**	**31-3-2019 Rs.**
Share Capital	5,00,000	5,00,000	Fixed Assets	2,50,000	2,25,000
Profit and Loss A/c	1,00,000	1,75,000	Investments	1,50,000	3,25,000
Debentures	1,50,000	1,50,000	Current Assets	4,00,000	3,50,000
Creditors	50,000	75,000			
	8,00,000	**9,00,000**		**8,00,000**	**9,00,000**

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SECTION – B

Answer **any four** questions. **(4×12=48)**

7. Explain SEBI Regulations governing Bonus Issue of Shares.

8. What is an Asset Management Company ? Explain its features.

9. Gentex Ltd. furnishes the following details from which you are required to estimate working capital requirements using operating cycle. Assume 360 days in a year.

	Rs.
a) Average Inventory	
Raw materials	6,00,000
Work-in-Progress	5,00,000
Finished goods	10,00,000
b) Particulars of daily operations :	
Raw Materials consumed	60,000
Cost of production	1,00,000
Cost of Goods sold	2,00,000
Credit sales	3,00,000
Credit purchases	1,50,000
Total Debtors	24,00,000
Total Creditors	15,00,000

10. The financial details of eight companies for a year are given below along with expected growth rates. Calculate their cost of equity shares.

Sl.No.	Company	Face Value (Rs.)	Dividend (%)	Market Price (Rs.)	Growth Rate (%)
1	TATA	10	30	110	6
2	EID Parry	2	225	281	9
3	Ecoplast	10	40	275	5
4	Zuari	10	55	280	7
5	Gujarath Cement	100	25	600	9
6	Indian Hotels	10	18	320	5
7	Berger Paints	10	15	150	6
8	Wipro	100	30	900	5

11. Apply Modigliani-Miller hypothesis and determine the share prices of the following companies after the declaration of dividend.

Company	Face Value (Rs.)	Price before declaration of dividend (Rs.)	Dividend per share (Rs.)	Cost of Equity %
AX Ltd	10	600	12	5
DX Ltd	10	418	6	6
GX Ltd	10	206	5	7

VX Ltd	10	165	12	4
LX Ltd	10	5,980	20	5
PX Ltd	10	123	8	12
SX Ltd	10	425	15	11
ZX Ltd	10	135	10	6

12. Following are the Balance Sheets of Crown Ltd. and Brown Ltd.

Assets	**Crown Ltd. (Rs.)**	**Brown Ltd. (Rs.)**
Land and Building	2,40,000	3,60,000
Plant and Machinery	9,00,000	18,75,000
Investments	3,00,000	6,00,000
Stock	4,50,000	6,00,000
Sundry Debtors	3,00,000	3,60,000
Cash at Bank	2,10,000	4,05,000
Total	**24,00,000**	**42,00,000**
Liabilities		
Equity Share Capital	6,00,000	9,00,000
12% Debentures	3,00,000	6,00,000
10% Pref. Shares	6,00,000	7,50,000
Reserves and Surplus	3,00,000	3,60,000
Provisions	1,50,000	2,10,000
Sundry Creditors	4,50,000	12,30,000
Bank Overdraft	–	1,50,000
Total	**24,00,000**	**42,00,000**

Compare the financial position of the two companies with the help of Common-Size Balance Sheet.

SECTION – C

Answer **any two** questions. **(2×24=48)**

13. Explain the factors determining dividend policy.

14. From the following information prepare Cash Budget for 6 months : Jan.-June 2020. It is assumed that cash balance in hand on 1st January 2020 is Rs. 72,500.

Month	**Sales (Rs.)**	**Material Purchases (Rs.)**	**Salaries and wages (Rs.)**	**Production Overhead (Rs.)**	**Office and Selling Overhead (Rs.)**
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700

March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500

Assume that 50 per cent of total sales are cash sales. Debtors are allowed one month's credit. Creditors for materials purchased and overheads will be paid in the next month. Assets are to be acquired in the month of February and April for Rs. 8,000 and Rs. 25,000 respectively.

An application has been made to the bank for the grant of loan of Rs. 30,000 and it is hoped that the loan amount will be received in the month of May. It is anticipated that a dividend of Rs. 35,000 will be paid in June. Sales commission at 3% on sales is paid to the salesman each month.

15. From the following details prepare an estimate of working capital requirements of FineTek Company Ltd.

Production	120000 units
Selling price	Rs. 5 per unit
Raw materials	60% of selling price
Direct wages	10% of selling price
Manufacturing overheads	20% of selling price
Raw material in stock	2 months requirement
Production process	1 month
Finished goods in stores	3 months
Credit from suppliers	2 months
Credit allowed to customers	3 months
Average cash balance	Rs. 20,000
Safety margin	20%

Wages and overheads are paid at the beginning of the next month.

16. Spintex Ltd. has the following capital structure as on 31-3-2018.

Equity share capital (300000 shares)	Rs. 30,00,000
6% Preference shares	Rs. 20,00,000
8% Debentures	Rs. 40,00,000
Total	**Rs. 90,00,000**

The market price of company's equity share is Rs. 30. It is expected that the company will pay a current dividend of Rs. 5 per share, which will grow at 20% forever. The tax rate may be presumed at 35%. You are required to compute the following.

a) A weighted average cost of capital based on existing capital structure.

b) The new weighted average cost of capital, if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 8 and leave the growth unchanged but the price of the share will fall to Rs. 15 per share.