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BCMCMC 363

Credit Based VI Semester B.Com. Examination, September/October 2021
(Common to all Batches)
COMMERCE
Financial Management – II

Time : 3 Hours

Max. Marks : 120

Instruction : Provide working notes wherever necessary.

SECTION – A

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

1. Explain the measures for improving the liquidity of the firm.
2. What is an operating cycle ? How is it calculated ?
3. What are the activities of the “Sponsor” of a Mutual Fund ?
4. Two steel companies Tata Steel and Bhushan Steel had equity shares priced at ₹ 150 each. During the financial year 2017-18 each one made net profit of ₹ 210 crores. Cost of equity is the same for both the companies at 10%. Tata Steels Ltd. decided to declare a dividend at ₹ 8 per share and Bhushan Steels Ltd. decided not to declare any dividend. Using Miller – Modigliani Hypothesis :
 - a) Calculate the share prices of both the companies.
 - b) Is there any difference in the total shareholder wealth between the two companies ?
5. Lakshmi Vilas Bank Ltd., issued 15% preference shares of ₹ 100 each. They were redeemable at par after 5 years. Calculate the cost of preference shares :
 - i) If issued at a discount of 10%.
 - ii) If issued at a premium of 25%.

P.T.O.



6. From the following details, prepare a Comparative Income Statement.

	Year 2017 ₹	Year 2018 ₹
Sales	1,20,000	1,50,000
Less : Cost of goods sold	<u>70,000</u>	<u>75,000</u>
Gross profit	50,000	75,000
Less : Indirect Expenses	<u>20,000</u>	<u>25,000</u>
Net profit before tax	30,000	50,000
Less : Provision for tax	<u>6,000</u>	<u>10,000</u>
Net profit after tax	<u><u>24,000</u></u>	<u><u>40,000</u></u>

SECTION – B

(4×12=48)

Answer **any four** questions :

7. What are the factors affecting dividend policy ?
8. What are the benefits of Mutual Funds ?
9. The following companies are selected for having the same returns on investments at 12% and the same EPS at ₹ 20. However their cost of capital and dividend payout ratio are different at the figures shown below :

Company	Dividend payout ratio (%)	Cost of equity (%)
A. Co. Ltd.	10	16
B. Co. Ltd.	20	15
C. Co. Ltd.	30	14
D. Co. Ltd.	40	13
E. Co. Ltd.	50	12
F. Co. Ltd.	60	11

Using Gordon's dividend model determine their share price.



10. The Balance Sheet of Berger Paints Ltd. for the year 2016 and 2017 are given below :

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Balance Sheet

Liabilities	31-12-2016	31-12-2017
	₹	₹
Equity share capital	6,00,000	12,00,000
10% pref. share capital	5,00,000	9,00,000
Reserve fund	4,00,000	5,00,000
Profit and Loss Account	2,00,000	3,00,000
Long-term loans	2,00,000	5,00,000
Creditors	1,00,000	3,00,000
Total	20,00,000	37,00,000
Assets		
Fixed Assets	15,00,000	28,00,000
Less: Depreciation	<u>5,00,000</u>	<u>8,00,000</u>
Net Block	10,00,000	20,00,000
Investments	4,00,000	5,00,000
Inventories	4,50,000	6,50,000
Accounts receivables	1,00,000	4,00,000
Cash	50,000	1,50,000
Total	20,00,000	37,00,000

Compare the financial position of the company for two years with the help of Common – size Balance Sheet.



11. J. B. Chemicals Ltd. provides the data about the sales and inventory for a period of twelve years. Determine the trend values keeping the earliest years figures as the basis :

Year	Sales (₹ Crore)	Inventory (₹ Crore)
2009	1,100	220
2010	1,100	210
2011	1,700	280
2012	1,900	360
2013	2,500	480
2014	2,300	400
2015	2,000	410
2016	2,200	420
2017	2,600	430
2018	2,700	440
2019	2,900	460
2020	3,000	480

12. The following details relating to various companies for the year 2017-18 are given below with the expected growth rate :

Calculate the cost of equity shares

Sl. No.	Company	Face value(₹)	Dividend %	Market price (₹)	Growth rate (%)
1	Nexon	6	115	580	4
2	Tiago	2	110	210	5



3	Hexo	8	120	1,200	6
4	Tiagor	5	160	180	7
5	Zest	5	100	400	8
6	Harrier	100	50	2,600	9

SECTION – C

Answer **any two** questions :

(2×24=48)

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

Elements of cost	Per unit (₹)
Raw materials	70
Direct labour	30
Overheads	50
Profit	50
Selling price	200

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The following particulars are available.

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

You are required to prepare a statement showing the working capital needed to finance a level of activity of 52000 units of production.



14. From the following information you are required to prepare Cash Budget for the months of July, August and September 2017.

- 1) Cash in Bank on 1st July 2017 is ₹ 25,000.
- 2) Salaries and wages estimated monthly ₹ 10,000.
- 3) Interest payable August 2017 ₹ 5,000.
- 4) Sales, purchases and expenses are as follows :

	June	July	August	September
	₹	₹	₹	₹
Estimated cash sales	—	1,40,000	1,52,000	1,21,000
Credit sales	1,00,000	80,000	1,40,000	1,20,000
Purchases	1,60,000	1,70,000	2,40,000	1,80,000
Other Expenses (Payable in same month)	—	20,000	22,000	21,000

- 5) Credit sales are collected 50% in the month of sales are made and 50% in the month following.
- 6) Collection from credit sales are subject to 5% discount if payment is received in the month of sales and 2.5% if payment is received in the month following.
- 7) 10% of the purchases are paid in the same month and the remaining in the next month.

Salaries and wages are paid in the same month.

15. A Ltd. has the following capital structure :

	₹
Equity share capital (shares of ₹ 10 each)	30,00,000
6% preference shares of ₹ 100 each	20,00,000
8% debentures of ₹ 100 each	40,00,000
Total	90,00,000



The market price of the company's equity share is ₹ 30. It is expected that the company will declare a dividend of 50%, 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 ₹ 20,00,000. Term Loan at an interest of 10% p.a. This would result in increase in dividend rate to 80% and leave the growth unchanged, but the price of the share will fall to ₹ 15 per share.

16. From the following data pertaining to a company compute operating cycle for each of the two years :

Particulars	Shri Dharmasthala Manjunathaswara College of Business Management Library MANGALORE - 575 003	
	I Year ₹	II Year ₹
Stocks : Raw materials	20,000	27,000
Work-in progress	14,000	18,000
Finished goods	21,000	24,000
Purchase of raw materials	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Also calculate number of operating cycles in a year and use it to estimate the size of working capital. You can assume 360 days in a year for the purpose of calculation.
