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

# BCMCMC 383

## Choice Based Credit System VI Semester B.Com. Degree Examination, September 2022
## (2021 – 22 Batch Onwards)
## COMMERCE
## Financial Management – II

Time : 3 Hours                                                                 Max. Marks : 120

### SECTION – A

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

1. What are the effects of cash deficit ?

2. What is an operating cycle ? How is it calculated ?

3. What are the activities of the sponsor of a mutual fund ?

4. Skynet enterprises achieved an earnings per share of ₹ 30 for the year 2020 – 21. Its cost of equity was 15% and the rate of return was 19%. The dividend payout ratio was 30%. Calculate the market price of the share using Gordon's dividend model. What will be the market price if the payout ratio was increased to 40% ?

5. Vishwas Ltd., furnishes the following data. Determine the trend values. The year 2018 is considered as base period.

| Year | Sales (₹) | Debtors (₹) | Inventory (₹) |
|---|---|---|---|
| 2018 | 2,00,000 | 1,00,000 | 50,000 |
| 2019 | 2,50,000 | 1,25,000 | 62,500 |
| 2020 | 3,00,000 | 1,50,000 | 75,000 |
| 2021 | 4,00,000 | 1,90,000 | 1,00,000 |

6. Wealth Plus mutual fund has the following assets in Scheme Evergreen at the closure of business on 31st March 2022.

| Company | Number of shares | Market price per share |
|---|---|---|
| ABC Ltd. | 5,00,000 | ₹ 20 |
| XYZ Ltd. | 2,00,000 | ₹ 30 |
| TEC Ltd. | 3,00,000 | ₹ 50 |

The total number of units of Scheme Evergreen are 1 lakh. The Scheme Evergreen has accrued expenses of ₹ 2,50,000 and other liabilities of ₹ 1,50,000. Calculate the NAV per unit of the Scheme Evergreen.

## SECTION – B

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

7. What are mutual funds ? Describe different types of mutual funds.

8. Explain the benefits of bonus shares to the company and shareholders.

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

| Particulars | Amount for the Year (₹) |
|---|---|
| **Stocks :** | |
| Raw materials | 70,000 |
| Work-in-progress | 40,000 |
| Finished goods | 50,000 |
| Purchase of raw materials | 1,10,000 |
| Cost of goods sold | 4,00,000 |
| Sales | 4,50,000 |
| Debtors | 1,50,000 |
| Creditors | 70,000 |

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

10. 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 |

11. The financial details of eight Pharma companies for the year 2020 – 21 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 | 20 | 34 | 4 |
| 2 | B Co. Ltd. | 2 | 85 | 77 | 6 |
| 3 | C Co. Ltd. | 2 | 250 | 281 | 8 |
| 4 | D Co. Ltd. | 10 | 40 | 103 | 5 |
| 5 | E Co. Ltd. | 10 | 20 | 78 | 5 |
| 6 | F Co. Ltd. | 10 | 40 | 190 | 6 |
| 7 | G Co. Ltd. | 10 | 25 | 34 | 4 |
| 8 | H Co. Ltd. | 10 | 18 | 234 | 7 |

12. Following are the Balance Sheet of Popular Co. Ltd. and Famous Co. Ltd. as on 31-12-2021.

| Assets | Popular Co. Ltd. (₹) | Famous Co. Ltd (₹) |
|---|---|---|
| Land and Buildings | 80,000 | 1,20,000 |
| Plant and Machinery | 3,00,000 | 6,25,000 |
| Investment | 1,00,000 | 2,00,000 |
| Stock | 1,50,000 | 2,00,000 |
| Debtors | 1,00,000 | 1,20,000 |
| Cash at bank | 70,000 | 1,35,000 |
| **Total** | **8,00,000** | **14,00,000** |
| **Liabilities** | | |
| Equity Share Capital | 2,00,000 | 3,00,000 |
| 12% Debentures | 1,00,000 | 2,00,000 |
| 10% Pref. Share Capital | 2,00,000 | 2,50,000 |
| Reserves and Surplus | 1,00,000 | 1,20,000 |
| Dividend Provisions | 50,000 | 70,000 |
| Sundry Creditors | 1,50,000 | 4,10,000 |
| Bank O.D. | – | 50,000 |
| **Total** | **8,00,000** | **14,00,000** |

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 affecting dividend policy of a company.

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

| **Elements of a cost** | **Amount per unit** (₹) |
|---|---|
| Raw materials | 140 |
| Direct labour | 60 |
| Overheads | 100 |
| Profit | 100 |
| Selling price | **400** |

The following particulars are available.

a) Raw materials are in stock on an average for 2 months.

b) Materials are in process for 1 month, Finished goods are in stock on an average for 2 months.

c) Credit allowed by suppliers is 2 months and allowed to customers is 2 months.

d) Lag in payment of wages is 1 month.

e) Lag in payment of overhead expenses is $\frac{1}{2}$ month.

f) $\frac{1}{4}$th of the output is sold for cash.

g) Cash in hand is 60000. Assume 10% for contingencies.

h) There is a regular production and sales cycle.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,00,000 units of production.

15. Prepare a cash budget for the three months ending 30th June, 2021 from the information given below :

a) **Month**

| Month | Sales (₹) | Materials (₹) | Wages (₹) | Overheads (₹) |
|---|---|---|---|---|
| February | 1,40,000 | 96,000 | 30,000 | 17,000 |
| March | 1,50,000 | 90,000 | 30,000 | 19,000 |
| April | 1,60,000 | 92,000 | 32,000 | 20,000 |
| May | 1,70,000 | 1,00,000 | 36,000 | 22,000 |
| June | 1,80,000 | 1,04,000 | 40,000 | 23,000 |

b) Sales – 10% sales are on cash, 50% of the credit sales are collected next month and the balance in the following month.

c) The creditors are allowing a credit period of 2 months.

d) Delay in payment of wages and overheads $\frac{1}{2}$ month.

e) Cash and bank balance on 1st April 2021 is expected to be ₹ 20,000.

f) Other relevant informations are :

i) Plant and Machinery will be installed in February, 2021 at a cost of ₹ 9,60,000. The monthly installment of ₹ 20,000 is payable from April onwards.

ii) Dividend at 5% on preference shares capital of ₹ 20,00,000 will be paid on 1st June.

iii) Advance to be received for sale of vehicles ₹ 90,000 in June.

iv) Dividends from investments amounting to ₹ 10,000 are expected to be received in June.

v) Income Tax (advance) to be paid in June is ₹ 20,000.

16. A Ltd. has the following capital structure :

| | ₹ |
|---|---|
| Equity Share Capital (50,000 shares) | 50,00,000 |
| 8% Preference Shares (F.V. Rs. 100) | 20,00,000 |
| 9% Debentures (F.V. Rs. 100) | 20,00,000 |
| **Total** | **90,00,000** |

The market price of the company's equity share is ₹ 30. It is expected that the company will pay a current dividend of ₹ 5 per share, which will grow at 20% forever. The tax rate may be presumed at 50%. 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 ₹ 10,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹ 8 and leave the growth unchanged but the price of the share will fall to ₹ 25 per share.