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BCMCMC 363

Credit Based Sixth Semester B.Com. Degree Examination, July/August 2023
(2020 – 21 and Earlier Batches)
COMMERCE
Financial Management – II

Time : 3 Hours

Max. Marks : 120

Instruction : Provide working notes wherever necessary.

SECTION – A

I. Answer **any four** questions.

(6×4=24)

- 1) Explain the effects of cash deficits.
- 2) Explain the types of working capital.
- 3) Describe the types of mutual fund schemes on the basis of structure.
- 4) Charishma Ltd. achieved an EPS of ₹ 20. Its cost of equity was 15% and rate of return was 18%. The dividend pay out ratio was 20%.

Calculate the market price of the share by using Gordon's dividend model.
What will be the share price, if the pay-out ratio was increased to 50% ?

- 5) Moon Ltd. declared 95% dividend on its equity shares of ₹ 10. The market price existed at ₹ 410 per share of 8%.

Sun Ltd. declared 70% dividend on its equity shares of ₹ 10 each. The market price existed at ₹ 68. Rate of 10%.

Calculate the cost of equity shares of both the companies.

- 6) Vishal Ltd. had 1,00,000 equity shares of ₹ 10 each. The company now intends to pay ₹ 2 per share for the current year. Its capitalisation rate is 15%. Determine the price of the company's share by using MM Model when dividend is declared.

P.T.O.



SECTION – B

II. Answer **any four** questions.

(12×4=48)

- 7) Explain the merits and demerits of mutual funds.
- 8) Explain the factors which influence the dividend policy of a concern.
- 9) Nupur Ltd. presents the following. Prepare cash budget of the company for August and September.

	July (Actual) ₹	August (Estimated) ₹	September (Estimated) ₹
a) Cash sales	3,00,000	3,75,000	4,50,000
b) Credit sales	5,00,000	6,20,000	6,80,000
c) Cash purchases	75,000	80,000	85,000
d) Credit purchases	1,00,000	1,20,000	1,50,000
e) Expenses	40,000	50,000	55,000
f) Closing balance	2,10,000	-	-

Other details :

- i) 50% of credit sale is realised in the same month. Remaining 50% is realised in the next month.
 - ii) 40% of credit purchases is payable in the same month, 30% in the next month and the remaining 30% after two months.
 - iii) Other expenses on the same month.
- 10) Following is the Balance Sheet of Navarang Ltd.

Liabilities	₹	Assets	₹
Share capital (10,000 shares of ₹ 10 each)	1,00,000	Building	70,000
Reserves and surplus	30,000	Plant	65,750
Profit and Loss A/c	35,000	Debtors	47,500
Debentures	40,000	Stock	31,750
Creditors	45,000	Cash	35,000
	2,50,000		2,50,000

Present the Balance Sheet as a common-size statement.



- 11) Details of redeemable debentures of four different companies are given below. Issue expenses are given as a percentage of net sale proceeds. Debentures of all the companies are redeemable after 5 years and carry a uniform interest rate of 15%.

Company	F.V. (₹)	Discount (%)	Premium (%)	Issue Expense (%)	Tax Rate (%)	Redemption Premium (₹)
P	100	10	-	5	30	10
Q	10	-	20	10	40	20
R	100	-	20	15	0	10
S	100	10	-	10	20	Nil

Calculate cost of debentures of each company.

- 12) Estimate the working capital requirement from the following information. You are instructed to add 10% for contingencies.

	₹
a) Amount blocked up in stock	
Stock of materials	10,000
Stock of finished goods	6,000
b) Average credit sales	
Inland sales – 8 week's credit	3,00,000
Export sales – 2 week's credit	80,000
c) Lag in payment and outgoings	
Wages – 2 weeks	2,50,000
Purchase of materials – 2 months	50,000
Rent and Royalties – 6 months	10,000
Clerical staff – 1 month	5,000
Miscellaneous expenses – 2 months	50,000

SECTION – C

(24x2=48)

III. Answer any two questions.

- 13) Explain the factors which determine the size of working capital.
14) Explain the reasons for cash flow problems.



15) Arathi Ltd. has the following capital structure :

	₹
Equity share capital (2,00,000 shares)	40,00,000
6% Preference shares	10,00,000
8% Debentures	30,00,000
	80,00,000

The market price of the company's equity share is ₹ 20. It is expected that the company will pay a current dividend of ₹ 2 per share; which will grow at 7% 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 the existing capital structure.
- b) The new weighted average cost of capital, if the company raises an additional ₹ 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to ₹ 3 and leave the growth unchanged, but the price of the share will fall to ₹ 15 per share.

16) The proforma cost sheet of a company shows the following particulars :

Elements of cost	Amount per unit
	₹
Raw materials	70
Direct labour	30
Overheads	50
Profit	50
Selling price	200

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 is one month.
- g) Lag in payment of overheads is one month.
- h) 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 52,000 units of production.