



Credit Based Sixth Semester B.Com. Degree Examination, May/June 2016
COMMERCE
Financial Management – II

Time : 3 Hours

Max. Marks : 120

SECTION – A

Answer any four questions :

(4×6=24)

1. What is an operating cycle ? How is it calculated ?
2. Differentiate between venture capital and private equity.
3. What are the activities of the "sponsor" of a mutual fund ?
4. 'Spandana' wants to accumulate Rs. 20,00,000 over a period of 4 years. For this, she plans to make equal annual deposits in the Bank at a compound interest of 10% at the beginning of each year. Calculate how much she must deposit per year ?
5. Sangama Automobiles Ltd., gives you the following details of its capital structure :
 - i) Equity share capital of Rs. 12,00,000 with the cost at 12%.
 - ii) Preference share capital of Rs. 9,00,000 with the cost at 14%.
 - iii) Debentures of Rs. 10,00,000 with the cost at 16%.Calculate the weighted average cost of capital of the company.
6. Madhura Ltd. achieved an EPS at Rs. 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 divided pay-out-ratio is :
 - a) 0%
 - b) 25%
 - c) 50% and
 - d) 100%.



SECTION – B

Answer **any four** questions :

(4×12=48)

7. Give a brief account of the factors promoting venture capital financing.
8. What are the factors affecting the dividend policy ?
9. A project requiring Rs. 2,00,000 of initial investment is expected to result in the following cash flows over an investment horizon of 6 years. Assuming interest at 8% determine whether the project is viable.

Year	Cash flows (Rs.)
1	30,000
2	34,000
3	40,000
4	28,000
5	32,000
6	56,000

10. Prepare an estimate of working capital requirement of a manufacturing concern from the details furnished below relating to the year 2014-15.

	Rs.
Sales for 3 months credit	48,00,000
Rawmaterials purchased	18,00,000
Wages paid 15 days in arrears	10,80,000
Manufacturing overheads 1 month in arrears	4,80,000
Administrative overheads 1 month in arrears	1,20,000
Sales promotion expenses payable 3 months in advance	1,20,000
Income tax payable	1,00,000

The company enjoys one months credit from the suppliers of rawmaterials. It maintains two months stock of rawmaterials and two months stock of finished goods. Cash balance is maintained at Rs. 50,000. Assume 10% for contingency.



11. The financial details of ten companies for the year 2014-15 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.	ACC Ltd.	100	8	390	4
2.	Tata	10	30	110	6
3.	Eid Parry	2	225	281	9
4.	Ecoplast	10	40	275	5
5.	Zuari	10	55	280	7
6.	Gujarat Cement	100	20	600	9
7.	Tata Coffee	10	100	450	6
8.	Indian Hotels	10	18	320	5
9.	Berger Paints	10	15	150	6
10.	Wipro	100	30	900	5

12. The following companies are selected for having the same return on investment at 12% and the same EPS at Rs. 20. However, their cost of capital and dividend payout ratio are different at the figure shown below :

Company	Dividend payout ratio (%)	Cost of equity (%)
Ambari	10	16
Airawata	20	15
Hamsa	30	14
Nethra	40	13
Dhaara	50	12
Sahana	60	11

Using Gordon's dividend model determine their share prices.

SECTION – C

Answer **any two** questions :

(2×24=48)

13. What is meant by venture capital ? Explain the investment processes in venture capital.
14. Narrate the different types of mutual fund schemes.



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

Element of cost	Amount per unit (Rs.)
Rawmaterials	70
Direct labour	30
Overheads	50
Profit	50
Selling price	200

The following particulars are available :

- a) Rawmaterials 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 in one month.
- g) Lag in payment of overheads expenses in one month.
- h) 1/4th of the output is sold for cash.
- i) 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 52,000 units of production.

16. The following information has been extracted from the balance sheet of D. G. Kamath Ltd. as on 31-12-2005.

	Rs.
Equity share capital	600
12% Debentures	400
18% Term loans	1,500
	2,500

- a) Determine the weighted average cost of capital of the company, if it had been paying dividend at a consistent rate of 25% per annum.
 - b) What difference will it make if the current price of the Rs. 100/share is Rs. 150 ?
 - c) Determine the effect of income tax on the cost of capital under both the premises (Tax rate is 40%).
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