



**Credit Based VI Semester B.Com. Examination, April/May 2017
(New Scheme) (2016-17 Batch)**

COMMERCE

Financial Management – II

Time : 3 Hours

Max. Marks : 120

SECTION – A

Answer any four :

(6×4=24)

1. Jaydev Ltd. issues 50,000 equity shares of Rs. 10 each at a premium of 20%. The share issue expenses are estimated to be 10% of total sale proceeds. Calculate the cost of equity share if the company is planning to declare dividend at 13.5% for the current year.
2. Anusha Co. Ltd. achieved an EPS of Rs. 20 for the year 2015-16. Its cost of equity was 16% and the rate of return was 20%. 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% ?
3. Following is the Balance Sheet of Karunya Agro Ltd. as on 31-3-2016.

31-3-15 Rs.	Liabilities	31-3-16 Rs.	31-3-15 Rs.	Assets	31-3-16 Rs.
1,00,000	Share Capital	1,00,000	50,000	Fixed Assets	45,000
20,000	P/L A/c	35,000	30,000	Investments	65,000
30,000	Debentures	30,000	80,000	Current Assets	70,000
10,000	Creditors	15,000			
1,60,000		1,80,000	1,60,000		1,80,000

Prepare a comparative Balance Sheet.

4. How is a Mutual Fund formed and managed ?
5. Explain the concept of Working Capital, Briefly.
6. What are the effects of Cash Deficit ?

SECTION – B

Answer any four :

(12×4=48)

7. The transactions of a small scale industrial unit for the month of August 2016 are as given below :
 - 1) Cash sales Rs. 4,29,800
 - 2) Credit sale Rs. 8,90,000 always 50% of the credit sale is realised in the same month, 25% in the next month (1 month after) and remaining 25% two months after.

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- 3) Cash purchases Rs. 2,23,500.
- 4) Credit purchases Rs. 1,60,000. always, 10% of the credit purchases is payable in the same month, 40% in the next month and the remaining 50% two months after.
- 5) Wages Rs. 1,20,000, These are weekly wages. $\frac{3}{4}$ of the wages is paid in the same month and $\frac{1}{4}$ in the next month.
- 6) Salary Rs. 80,000 payable in the first week of the next month.
- 7) Power bill Rs. 38,000 which is always payable in the next month.
- 8) Closing balance of cash is expected to be Rs. 2,60,000 further the firm estimates the following figures for the month of September 2016.

i) Cash sale	Rs. 7,80,000
ii) Credit sale	Rs. 9,40,000
iii) Cash purchases	Rs. 3,20,000
iv) Credit purchases	Rs. 2,30,000
v) Wages	Rs. 1,30,000
vi) Salaries	Rs. 90,000
vii) Sale of investment	Rs. 1,20,000
viii) Sale of old machinery	Rs. 90,000
ix) Purchase of new machinery	Rs. 2,10,000
(The payment is expected to be made in October 2016)	
x) Power	Rs. 46,000
xi) Investment in corporate securities	Rs. 10,00,000

Prepare the cash budget of the industrial unit for September 2016.

8. Prepare an estimate of working capital requirement from the following data of a manufacturing concern.

Sales (Credit period 3 months)	Rs. 20,00,000
Raw materials	Rs. 6,00,000
Wages paid 15 days in arrears	Rs. 4,80,000
Manufacturing expenses – 1 month in arrears	Rs. 3,00,000
Administrative expenses – 1 month in arrears	Rs. 60,000
Sales promotion expenses payable in advance for 3 months	Rs. 50,000
Income tax payable	Rs. 12,500

The company enjoys one month credit from suppliers of raw materials. It maintains two months stock of raw materials and one month stock of finished goods. Cash balance is maintained at Rs. 50,000 as a precautionary balance. Assume 10% for contingences.



9. From the following data relating to ten Pharmaceutical Companies. Calculate their cost of equity for the year 2015-16.

Company	Face value Rs.	Dividend %	Market price Rs.
i) Ranbaxy Lab	5	50	431
ii) Wook Hardt	5	100	390
iii) Zandu Pharma	100	50	2,800
iv) Dabur Pharma	1	10	59
v) Amrutanjan	10	35	211
vi) Cadila health care	5	120	620
vii) Cipla	2	175	225
viii) Dr. Reddy Labs	5	100	1,100
ix) Matrix Lab	2	60	228
x) Nicholas Piramal	2	150	177

10. 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 (%)	Net profit (Rs. Crores)
Bajaj Auto	10	600	12	5	320
Glucoc	10	418	6	6	110
Mataji Auto	10	206	5	7	56
Matrix Auto	10	165	12	4	250
Napier Co.	10	5,980	20	5	175

11. Why should an investor invest through a mutual fund? Explain.

12. Explain the important techniques of financial analysis.

SECTION – C

Answer any two questions :

(2x24=48)

13. A Ltd. has the following capital structure :

Equity share capital (200000 shares)	Rs. 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 Rs. 20. It is expected that the company will pay a current dividend of Rs. 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) 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. 3 and leave. The growth unchanged, but the price of the share will fall to Rs. 15 per share.

14. You are supplied with the following information in respect of Sangama Pvt. Ltd. for the year 2016.

- Production – 69000 units
- Finished goods in stores – 3 months
- Raw materials in stores – 2 months
- Production process – one month
- Credit allowed by creditors – 2 months
- Credit given to debtors – 3 months
- Selling price per unit – Rs. 50
- Raw materials – 50% of selling price
- Direct wages – 10% selling price
- Over heads – 20% of selling price

There is a regular production and sales cycle. Wages and over-heads accrue evenly. Wages are paid in the next month of accrual, materials are introduced at the beginning of the production cycle.

You are required to calculate the working capital requirement.

15. Tata Motors Ltd. furnishes the following details. You are required to prepare trend values and make an analysis of that.

	(Rs. in crores)				
	March 2016	December 2014	December 2013	December 2012	December 2011
Inventory	300	205	144	75	45
Sundry Debtors	46	11	12	6	4
Cash and Bank	45	43	19	4	3
Sales	6,984	3,320	1,918	1,179	742

16. Explain in detail the role and functions of different parties to a mutual fund.