M.Com DEGREE (CSS) EXAMINATION, APRIL 2015

SECOND SEMESTER- CORE COURSE (COMMERCE)

COM2FMS-FINANCIAL MANAGEMENT STRATEGIES

Time: 3 Hours   **Maximum Weight: 30**

PART A

I.   **Answer any *FIVE* questions**
Each question carries 1 weight

1. What do you mean by cash cycle?

2. What do you understand by non-spontaneous sources of working capital?

3. What is JIT?

4. What does the credit term '1/10 net 30' imply?

5. What do you understand by precautionary motive of holding cash?

6. What is stock split?

7. Explain line of credit

8. What is interim dividend?

                                                                      (5X1=5)

PART B

II.   **Answer any *FIVE* questions**
Each question carries 2 weight

9. What are the costs of stock outs? How should the costs of stock outs and the carrying costs to be balanced to obtain the optimum safety stock?

10. What do you understand by hedging approach to financing working capital requirements?

11. What is factoring? Explain any 4 types of factoring.

12. Explain in detail the Miller Orr model of cash management

13. Enumerate the different factors influencing the size of receivables.

14. Explain the different money market instruments

15. A company gives the following information. Compute the operating cycle in days.

	Amounts (Rs.)
Average debtors (outstanding)	4,80,000
Raw material Consumption	44,40,000

Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of average stock maintained	
Raw material	3,20,000
Work in progress	3,50,000
Finished goods	2,60,000
Period covered	365 days
Average period of credit allowed by suppliers	16 days

16. A ltd earns Rs.40 per share. Its capitalization rate is 12% and has return on investment of 15%.Using Walter's dividend policy model, determine:

a) Optimum payout b) the price of share at optimum payout

(5X2=10)

PART C

III.   **Answer any *THREE* questions**
Each question carries 5 weight

17. What specific strategies can be adopted to slow disbursements of accounts payable?

18. What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends? Are dividends really irrelevant? If not, what are the arguments for relevance of dividend policy?

19. Discuss the various dimensions of receivables management

20. Estimate the net working capital required for ABC Co. Add 10 percent to your computed figure to allow contingencies

Estimated cost per unit of production is:-	
Raw material	80
Direct Labour	30
Overhead (exclusive of depreciation Rs.10 per unit)	60
Total cash cost	170

Additional information

Selling price Rs.200 per unit and level of activity 1, 04,000 units of production per annum.

Raw materials in stock, average 4 weeks

Work in progress : average 2 weeks (assume 50 percent completion stage in respect of conversion costs and 100 percent completion in respect of materials)

Finished goods in stock, average 4 weeks

Credit allowed by suppliers, average 4 weeks

Credit allowed to debtors, average 8 weeks

Lag in payment of wages, average 1.5 weeks

Cash at bank is expected to be Rs.25,000

You may assume that production is carried out evenly throughout the year (52 weeks) and wages and overhead accrue similarly. All sales are on credit basis only.

21. A manufacturing company has an expected usage of 50,000 units of certain products during the next year. The cost of processing an order is Rs.20 and the carrying cost per unit is Rs.0.50 for one year. Lead time of an order is 5 days and the company will keep a reserve supply of 2 days' usage. Calculate (a) economic order quantity (b) the reorder point

22. From the following information supplied to you, determine the theoretical market value of equity shares of a company as per Walter's model:

Earnings of the company   Rs.5,00,000

Dividends paid   Rs.3,00,000

Number of shares outstanding   Rs.1,00,000

Price earning Ratio   8

Rate of return on investment   0.15

Are you satisfied with the current dividend policy of the firm?If not what should be the optimal dividend payout ratio in this case?

(3X5=15)