

G 7883

(Pages : 3)

Reg. No. 252129.....

Name..... Shilpa Jose

M.Com. DEGREE EXAMINATION, JUNE 2011

Second Semester

Faculty of Commerce

Paper VI—FINANCIAL MANAGEMENT STRATEGIES

(Regular/Private 2010 Admissions/Supplementary)

Time : Three Hours

Maximum : 75 Marks

Non-programmable calculators permitted.

Section A

Answer all questions.

Each question carries 2 marks.

Answer not to exceed half a page each.

1. Define Gross working capital.
2. What is cash discount ?
3. What is a commercial paper ?
4. Distinguish between Provision and Reserve.
5. Explain VED analysis.
6. What are the outflows of cash ?
7. Define Stock dividend.
8. What is explicit cost of capital ?
9. What is lock box system ?
10. Explain near cash assets.

(10 × 2 = 20 marks)

Section B

Answer any five questions in about a page each.

Each question carries 5 marks.

11. Define Credit terms. Explain the role of credit terms in a credit policy.
12. Explain the factors influencing internal financing. ^{5 marks}
13. Explain briefly the factors that determine the working capital of a firm.
14. "The gross concept is sometimes preferred to the net concept of working capital". State the reasons.
15. Explain the factors that influence dividend decisions.
16. Explain costs of maintaining receivables.

Turn over

17. E Ltd. specialises in the manufacture of a computer component. The component is currently sold for Rs. 1,000 and its variable cost is Rs. 800. For the current year ended 31st December, the company sold on an average 400 computers per month.

At present, the company grants one month's credit to its customers. It is thinking of extending the same to two months, on account of which, the following are expected :

Increase in sales	25%
Increase in stock	Rs. 2,00,000
Increase in creditors	Rs. 1,00,000

You are required to advise the company on whether or not to extend credit terms if

- All customers avail of the extended credit period of two months.
- Existing customers do not avail of the credit terms but only new customers avail of the same.

Assume the entire increase in sales is attributable to the new customers.

The company expects a minimum return of 40% on the investments.

18. From the following information, calculate Minimum stock level, maximum stock level and Reorder level.

Maximum consumption	—	200 units per day
Minimum consumption	—	150 units per day
Normal consumption	—	160 units per day
Reorder period	—	10–15 days
Reorder quantity	—	1600 units
Normal reorder period	—	12 days

(5 × 5 = 25 marks)

Section C

Answer any one question in about four pages.

The question carries 10 marks.

19. Explain the sources of surplus.

20. X and Y Ltd, is deciduous to purchase a business and has consulted you, and one point on which you are asked to advice them, is the average amount of working capital which will be required in the first years working.

You are given the following estimates and are instructed to add 10% to your computed figure to allow for contingencies .

Particulars	Amount (Rs.)
(i) Average amount backed up for stocks.	
Stocks of finished product	5,000
Stocks of stores and materials	8,000
(ii) Average credit given :	
Inland sales, six weeks credits	3,12,000
Export sales 1.5 weeks credit	78,000

<i>Particulars</i>	<i>Amount (Rs.)</i>
(iii) Average time lag in payment of wages and other outgoings :	
Wages 1.5 weeks	2,60,000
Stocks and materials, 1.5 months	48,000
Rent and royalties, 6 months	10,000
Clerical staff, 0.5 months	62,400
Manager, 0.5 months	4,800
Miscellaneous expenses, 1.5 months	48,000
(iv) Payment in advance :	
Sundry expenses (paid quarterly in advance)	8,000
Undrawn profits on an average throughout the year	11,000

Set up your calculations for the average amount of working capital required.

(1 × 10 = 10 marks)

Section D

*Answer any one question.
The question carries 20 marks.
Answer should not exceed five pages.*

21. Define Cost of capital. State how you would determine the weighted average cost of capital of a firm.
22. Following information is available in respect of a trading firm.
- (a) On an average, debtors are collected after 45 days, inventories have an average holding period of 75 days and creditors payment period on an average in 30 days.
 - (b) The firm spends a total of Rs. 120 lakhs annually at a constant rate.
 - (c) It can earn 10% on investments.

From the above information, compute (i) the cash cycle and cash turnover, (ii) minimum amount of cash to be maintained to meet payments as they become due and (iii) savings by reducing the average inventory holding period by 30 days.

(1 × 20 = 20 marks)