Reg. No.

Paper CM 551

Fourth Semester M.Com. Degree Examination, May 2013
(CBCS)
COMMERCE
Financial Management

Time : 3 Hours

Max. Marks : 70

SECTION – A

Note : Answer **any four** questions. **Each** question carries **10** marks. Answer to **each** theory questions should **not** exceed **four** pages. **(4×10=40)**

1. What do you mean by merger ? Explain the plausible and dubious reasons for merger.

2. What is Merchant Bank ? Explain the functions of Merchant Bank.

3. What is meant by Bonus Share ? Discuss the motives for declaring a Bonus Share.

4. What is operating cycle ? Explain its components.

5. Explain Walter's Model of dividend theory.

6. A small firm has a total credit sales of Rs. 80 lakhs and its average collection period is 80 days. The part experience indicates that bad-debt losses are around 1% of credit sales. The firm spends about Rs. 1,20,000 per annum on administering its credit sales. This cost includes salaries of one officer and 2 clerks who handle credit checking, collection, etc. These are avoidable costs. A factor is prepared to buy the firm's receivables. He will charge 2% commission. He will also pay advance against receivables to the firm at an interest rate of 18% after withholding 10 percent as reserve. What should the firm do ?

7. An engineering company is considering its working capital investment for the year 2014. Estimated fixed assets and current liabilities for the year 2013 are respectively Rs. 1.30 crore and Rs. 1.17 crore. Sales and profit before interest and taxes depend on current assets investment particularly inventories and book debts.

P.T.O.

The company is examining the following alternative working capital policies :

Policy	Investment in Current Assets	Estimated Sales	EBIT
	₹ Crore	₹ Crore	₹ Crore
Conservative	2.25	6.15	0.615
Moderate	1.95	5.75	0.575
Aggressive	1.30	5.00	5.000

You are required to calculate the following for each policy.

a) Rate of return on total assets and net working capital position.

b) Current ratio and current assets to fixed assets ratio.

Also discuss briefly the return risk trade offs of the 3 policies.

SECTION – B

Note : Answer **any two** questions. **Each** question carries **15** marks. Answer to **each** theory question should **not** exceed **8** pages. **(2×15=30)**

8. Explain optimum cash balance under uncertainty under Miller-Orr model with diagrammatic representation.

9. Vedic Nourishers Ltd. is in the business of producing energy drinks in different flavours. Due to good opportunity of investments yielding a 25% return, they have been retaining 60% of their earnings while distributing the rest.

   a) If investors expect a return of 20% and the firm expects earnings of Rs. 10 per share find out the

      i) PE multiple of the firm and the

      ii) Current market price.

   b) The management of the firm believes that the market perception of the firm can be improved, but it does not have projects that can yield better than 25% return. What changes in the policy can you suggest if the firm needs to improve its PE multiple to

      i) 10 ii) 12 and iii) 20

   c) Find out the expected price of the share of vedic Nourishers Ltd. after one year assuming that the target PE multiples are achieved.

10. Sugandh Co. is in the business of manufacturing and selling perfumes. The sales forecast for the firm of the months January – March 2012 is as follows :

Months	**Sales (Rs. in lakh)**
January	215
February	225
March	257

The actual sales of the last 2 months of the previous calendar year have been Rs. 187 lakh and Rs. 199 lakhs respectively. The part records of sales indicate that on an average the firm has been selling 25% on cash basis.

Out of the credit sales made by the firm, 65% is realized in the month following the sales while 34% is realized in the second month. The firm had made inter corporate lending of Rs. 550 lakh that fetch an interest of 11% per annum. The interest is received half yearly (in March and September). The non-operating cash outflows expected in the month of February are projected as Rs. 32.5 lakh.

A capital expenditure is due towards the replacement of assets in the month of January. The amount for the same has been estimated at Rs. 105 lakh. The production department has given the following details regarding the cost of production.

- Direct material has been estimated at 51.5% of the sales.
- Labour and other overheads have been projected at 21.75% of the sales.
- The expenses are paid for in the month incurred.
- Company's cash balance on 31 December, 2011 was Rs. 1,25,000.
- The company wants to maintain a cash balance that is sufficient to meet 6% of its expected monthly cash outflows at all times during the period January-March.

You are required to forecast the cash position of the firm on a monthly basis.