

# CARMEL COLLEGE OF ARTS, SCIENCE AND COMMERCE

## M.Com (Semester –IV) (Accounting & Finance) Examination, July 2021

### COO 411: WORKING CAPITAL & DIVIDEND DECISIONS (OA-18 A)

Duration: 2 Hours

Max. Marks: 40

Instructions: 1) This paper consists of **six** questions

2) Question No.1 consists of **5 compulsory** questions of **2 marks** each

3) Answer **any 3** questions from Question **2,3,4,5 & 6**

4) The scanned copy of the answer sheets should be uploaded before 1:00 p.m. on the day of the exam

5) Figures to the **right** indicate **marks**.

**Q1) Answer the following questions**

**(5x2=10)**

- Explain any two Credit Policy Variables.
- Differentiate between Bonus Shares and Stock Split.
- Wonder Care Ltd. has an estimated cash payments of Rs. 17,00,000 for a one month period and the payments are expected to steady over the period. The fixed cost per transaction is Rs. 1,250 and the interest rate on marketable securities is 14% p.a. Calculate the optimum transaction size
- From the following information calculate raw material storage period:  
Annual raw material consumption Rs 27,000, Opening stock of raw material Rs 5,000, Closing stock of raw material Rs 4,000. Assume 1 year = 360 days
- State the factors affecting the working capital requirement.

**Q2) a. What is the role of Inventory in Working Capital?**

**(2)**

b. The following information is available from Aditya Limited.

**(8)**

Particulars	₹
Total Earnings	2,00,000
No. of Equity Shares	20,000
Dividend paid	1,50,000
P/E Ratio	12.5

Applying Walter's Model

- Find out the value of share at the present dividend pay-out ratio.
- Ascertain whether the company is following an Optimum Dividend Policy.
- Find out the value of the share at the Optimum Dividend Policy.

- Q3)** a. Mamata Limited belongs to a risk class for which the capitalisation rate is 10%. It has 25,000 shares and the current market price is ₹100. It expects a net profit of ₹ 2,50,000 for the year and the Board is considering dividend of ₹ 5 per share. (8)

Mamata Limited requires to raise ₹5,00,000 for an approved investment expenditure. Illustrate how the MM Approach affects the value of the firm if:

- i) Dividends are paid
- ii) Dividends are not paid

- b. Explain the costs associated with Receivables management. (2)

- Q4)** From the information given below you are required to prepare an estimate of working capital requirements: (10)

- i) Issued share capital: ₹ 3,00,000
- ii) 6% debentures: ₹ 2,00,000
- iii) Fixed assets at cost: ₹ 2,00,000
- iv) The expected ratios to selling price are:
  - a. Raw Materials 50%
  - b. Labour 20%
  - c. Overheads 20%
  - d. Profit 10%
- v) Raw materials are kept in store for an average of two months
- vi) Finished goods remain in stock for an average period of three months
- vii) Production during the previous year was 1,80,000 units and it is planned to maintain the same in the current year also.
- viii) Each unit of production is expected to be in process for half a month
- ix) Credit allowed to customers is three months and given by suppliers is two months
- x) Selling price is ₹ 4 per unit
- xi) There is a regular production and sales cycle
- xii) Calculation of debtors may be made at selling price

- Q5)** From the following budget data, prepare a cash budget to forecast the cash position at the end of April, May and June 2021. (10)

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Miscellaneous (₹)
February	1,20,000	84,000	10,000	7,000
March	1,30,000	1,00,000	12,000	8,000
April	80,000	1,04,000	8,000	6,000
May	1,16,000	1,06,000	10,000	12,000
June	88,000	80,000	8,000	6,000

**Additional Information:**

- i) Sales: 20% realised in the month of sales, discount allowed 2%. Balance realised equally in two subsequent months.
- ii) Purchase: These are paid in the month following the month of supply.
- iii) Wages: 25% paid in arrears following month.
- iv) Miscellaneous expenses paid a month in arrears.

- v) Rent: Rs 1,000 per month paid quarterly in advance, due in April.
- vi) Income-tax: First instalment of advance tax Rs 25,000 due on or before 15th June.
- vii) Income from investments. Rs 5,000 received quarterly, in April, July etc.
- viii) Cash in hand: Rs 5,000 on 1st April 2021..

**Q6)** What are the objectives of cash management? Compare and contrast the William J. Baumol's Model and Miller and Orr models of cash management. **(10)**

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