GVM'S GGPR College of Commerce & Economics, Ponda Goa

M.Com Semester IV Examination, August 2020

COC 411 – Working Capital and Dividend Decisions

Duration – 02 Hours **Maximum Marks: 30**

Instructions:
1. *This paper consists of 2* ***questions****.*
2. ***Question No. 1*** *consist of* ***1 compulsory questions*** *of 2 marks each.*
3. *Answer* ***any 4*** *questions sub questions from question No. 2****.***
4. *Figures to the* ***right*** *indicate* ***marks****.*

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1. Answer the following questions **(1x2=2 Marks)**

Write a short note on concept of operating cycle.

2. Answer any 4 of the following questions **(4x7=28 Marks)**

A. Explain the concept of working capital and enumerate factors affecting working capital requirement for business.

B. What is cash budgeting? Explain the different methods used in preparation of cash budgets.

C. What is meant by inventory control? explain briefly the various techniques of inventory control used in manufacturing organisations.

D. Explain the different kinds of dividend policies adopted by firms also discuss various determinants of dividend policy in a company

E. Probus Ltd is a well famous manufacturer and exporter of garments in India. The finance manager of the company is preparing its working capital forecast for the current year. After careful screening of previous year's sales performances and other relevant records the following information is offered to assist in estimation of working capital required and to be financed for the current financial year.

Production during the previous year was 15,00,000 units and the company is expecting to keep the same level for the current year. The expected ratios of costs to selling prices are as follows.

Raw Materials	40%
Direct Wages	20%

Overheads	20%

The raw materials ordinarily remain in stores for 3 months before production. Every unit of production remains in process for 2 months and is assumed to be consisting of 100% of raw materials, wages and overheads. Finished goods remains in warehouse for 3 months. Credit allowed by the creditors is 4 months from the date of delivery of raw materials and credit given to debtors is 3 months from the date of dispatch.

Estimated balance of cash to be held	Rs. 2,00,000
Lag in payment of wages	15 days
Lag in payment of expenses	½ month

Selling price is Rs. 10 per unit. Both production and sales are in a regular cycle throughout the year. You are required to make a provision of 10% for contingencies on the working capital required prior to including cash balance while estimating the net working capital.

You have recently joined the company as an Assistant Finance Manager and you are being asked to suggest based on the above estimation of working capital required.

F. RIL Ltd. Has offered the following sales forecast for January to May 2019 and the actual sales for November and December 2018.

Month	Sales (Rs.)
Actual Sales	
November, 2018	80,000
December	70,000
Forecasted Sales	
January, 2019	80,000
February	1,00,000
March	80,000
April	1,00,000
May	90,000

20% of sales made is on cash basis and the rest on credit terms, payment for which is realised in the third month.

The following information are also available.

a) Amount of purchases is budgeted at 60% of the sales turnover of a month and paid in the third month of purchase.

b) Variable expenses are 5% of turnover – time lag of payment is half month.

c) Commission on credit sales @ 5% is payable in the third month.

d) Rent and other expenses amounting to Rs. 3000 paid every month.

e) Payment for purchase of motor car Rs. 50,000 is payable in March, 2019.

f) Payment for taxes in April, 2019 amounts to Rs. 20,000.

g) There will be an opening cash balance of Rs. 25,000.

You are required to prepare a cash budget of RIL Ltd. for five months from January to May, 2019 (Provide necessary working notes wherever required).

G. Care Ltd. Has 10 lakhs of equity shares outstanding at the beginning of the year 2018. The current market price of the shares is Rs. 150 each. The Boards of Directors of care Ltd has recommended Rs. 8 per share as dividends. The rate of capitalisation appropriate to the risk-class to which the company belongs is 12%.

i. Based on M-M Approach, calculate the market price of the share of company when the dividends as recommended are - (a) declared; and (b) not declared.

ii. How many new shares are to be issued by the company at the end of accounting year on the assumption that the net income for the year is Rs. 2 crores and investment budget is Rs. 4 crores when dividends as recommended are - (a) declared; and (b) not declared.

iii. Show that the market value of the shares at the end of accounting year will remain the same whether dividends are distributed or not declared.