

B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2016**Third Semester****FINANCIAL MANAGEMENT**

(Common for (1) Model I B.Com. Optional Stream-Finance and Taxation, (2) Model II B.Com. Optional Stream-Finance and Taxation and UGC Sponsored Programmes, (3) Computer Applications, (4) Travel and Tourism and (5) Taxation)

[2013 Admission onwards]

Time : Three Hours

Maximum : 80 Marks

Answers may be written either in English or in Malayalam.

Part A

*Answer all questions.
Each question carries 1 mark.*

1. What do you mean by profit maximization ?
2. What do you mean by discounting ?
3. What do you mean by overall cost of capital ?
4. What do you mean by capitalization ?
5. What is optimum capital structure ?
6. What do you mean by ploughing-back of profit ?
7. What is conservative dividend policy ?
8. What do you mean by market value weights ?
9. Name any *two* factors affecting working capital of an organisation.
10. What do you mean by arbitrage ?

(10 × 1 = 10)

Part B (Short Answers)

*Answer any eight questions.
Each question carries 2 marks.*

11. Write a note on time value of money.
12. What is meant by capital structure ?
13. Differentiate gross and net working capital.
14. Differentiate equity shares from preference shares.

Turn over

15. What do you mean by permanent working capital ?
16. What do you mean by operating cycle ?
17. How does business cycle affect the working capital requirement of an organisation ?
18. What is optimum capital structure ?
19. What is capital gearing ?
20. Define financial leverage.
21. What is creditorship capital ?
22. Write a note on liquidity.

(8 × 2 = 16)

Part C

*Answer any six questions.
Each question carries 4 marks.*

23. X Ltd. issues 10 % irredeemable preference shares. The face value/share is Rs. 100 but the issue price is Rs. 95.
 - (a) What is the cost of preference shares ?
 - (b) What is the cost if the issue price is Rs. 105 ?
24. Give arguments to support the view that dividends are irrelevant.
25. How is the weighted average cost of capital calculated ? What weights should be used in its calculation ?
26. Explain MM theory.
27. Define the scope of financial management. What role should the financial manager play in a modern enterprise ?
28. Discuss briefly the different approaches to the computation of the cost of equity capital.
29. Explain leverage.
30. What are the different methods of estimating working capital needs of an organisation.
31. What are the factors determining the dividend policy ?

(6 × 4 = 24)

Part D

*Answer any two questions.
Each question carries 15 marks.*

32. Explain the determinants of working capital.
33. Describe the traditional view on the optimum capital structure. Compare and contrast this view with the NOI approach and the NI approach.
34. What do you understand by dividend policy? What are the main determinants of dividend policy in a corporate enterprise?
35. Aswathy Ltd. has the following book value capital structure on 31st March, 2004.

<i>Source of Finance</i>	<i>Amount (Rs.)</i>	<i>Proportion</i>
Share Capital ...	2,25,000	45
Reserves and Surplus ...	75,000	15
Preference Share capital ...	50,000	10
Debt ...	1,50,000	30
	<hr/>	<hr/>
	5,00,000	100
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The expected after-tax component costs of the various sources of finance for Aswathy Ltd. are as follows :

<i>Source</i>	<i>Cost (%)</i>
Equity ...	18
Reserves and Surplus ...	18
Preference Share capital ...	11
Debt ...	8

Calculate weighted average cost of capital. Suppose Aswathy Ltd. has 2,25,00,000 equity shares outstanding and that the current market price per share is Rs. 20. Assume that the market values and the book values of debt and preference share capital are the same. Calculate the WACC.

(2 × 15 = 30)