E 687 (Pages : 3) Reg. No..............................

Name..............................

B.Com. DEGREE (CBCSS) EXAMINATION, NOVEMBER 2010

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, (5) Taxation)

Time : Three Hours Maximum Weight : 25

Answers may be written **either** *in English* **or** *in Malayalam.*

Section A

This section consists of four bunches of **four** *questions each and each bunch carries a weight of* 1.
Answer **all** *questions.*

I. Choose the correct answer from the choices given :

1 Requirements of working capital depends upon :

(a) Size of the business. (b) Credit policy adopted.

(c) Operating cycle involved. (d) All the above.

2 Which of the tollowing is the short-term source of funds :

(a) Trade Credit. (b) Share.

(c) Debenture. (d) None of these.

3 The technique of adjusting time value of money is :

(a) Period technique. (b) Fixed time technique.

(c) Present value technique. (d) Future value technique.

4 Cost of capital of a firm is :

(a) Maximum rate of return expected by its investors.

(b) Minimum rate of return expected by its investors.

(c) Average rate of return expected by its investors.

(d) Moderate rate of return expected by its investors.

II. Fill in the blanks :

5 Long-term finances required to be invested for a period of above ——— years.

6 Capital gearing refers to the relationship between ———.

Turn over

7 An under-capitalised company can pay ——— rate of dividend.

8 Ploughing back of profits is an ——— source of capital.

III. State whether the following statements are True *or* False :

9 Trade credits are provided by banks.

10 Business finance deals only with investment of money.

11 Debenture holders are the creditors of the company.

12 Public deposits are secured.

IV. Match the following :—

13 Bonus issue	(a) Capital structure.
14 James Walter	(b) Circulating capital.
15 Working capital	(c) Minimum rate of return.
16 Cost of capital	(d) Dividend Theory.
	(e) Free reserves.
	(f) Source of finance.

(4 × 1 = 4 weight)

Section B

Answer any **five** *questions.*
Each question carries a weight of 1.

17 Define financial management.

18 What is gross working capital ?

19 What is over capitalisation ?

20 What is financial leverage ?

21 Define optimum capital structure.

22 What is pre-emptive rights ?

23 What is net income approach ?

24 Define cost of capital.

(5 × 1 = 5 weight)

Section C

Answer any **four** *questions.*
Each question carries a weight of 2.
Answer should not exceed **half a page** *each.*

25 Define fixed capital. List the factors that influence the requirements of fixed capital.

26 Give advantages of preference shares as a source of finance.

27 What do you understand by capital gearing ? What is its significance ?

28 Explain briefly the essentials of a sound working capital management.

29 X Ltd. issues 50,000, 8 % debentures of Rs. 10 each at a premium of 10 %. The cost of flotation are 2 %. The tax rate applicable to the company is 60 %. Compute the cost of debt.

30 A company expects a net income of Rs. 80,000. It has Rs. 2,00,000, 8 % debentures. The equity capitalisation rate is 10 %. Calculate the value of the firm and overall capitalisation rate according to the Net Income Approach. (Ignore income tax).

(4 × 2 = 8 weight)

Section D

Answer any **two** *questions.*
Each question carries a weight of 4.
Answer should not exceed **four** *pages.*

31 Describe the need and determinants of working capital in a business.

32 Explain the various factors which influence the dividend decision of a firm.

33 A proforma cost sheet of a company provides the following particulars :

Elements of Cost :

Raw materials	...	40 %
Labour	...	10 %
Overheads	...	30 %

The following further particulars are available :

(a) Raw materials are to remain in stores on an average—6 weeks.

(b) Processing time—4 weeks.

(c) Finished goods are required to be in stock on an averge period—8 weeks.

(d) Credit period allowed to debtors, on average 10 weeks.

(e) Lag in payment of wages—2 weeks.

(f) Credit period allowed by creditors—4 weeks.

(g) Selling price—Rs.50 per unit.

You are required to prepare an estimate of working capital requirements adding 10 % margin for contingencies for a level of activity of 1,30,000 units of production.

(2 × 4 = 8 weight)