E 1978 (Pages : 3) Reg. No................................

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

B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2011

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 bunch carries a weight of 1.
Answer **all** *questions.*

Bunch I

I. Choose the correct answer from the choices given :

1 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) None of the above.

2 The operational objective of an enterprise is :

(a) Maximisation of sales. (b) Maximisation of owner's wealth.

(c) Maximisation of profits. (d) None of the above.

3 The job of a finance manager is confined to :

(a) Raising of funds.

(b) Management of cash.

(c) Raising of funds and their effective utilisation.

(d) None of the above.

4 Discounting technique is used to :

(a) Find out future value of money.

(b) Find out present value of money.

(c) Find out both future and present value of money.

(d) None of the above.

Bunch II

II. Fill in the blanks :

5 Cost of retained earnings is the ———— cost of dividends foregone by the equity shareholders.

6 Financial leverage is also known as ————.

7 Shares having no face value are known as ————.

8 A fixed rate of ———— is payable on debentures.

Bunch III

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

9 Retained earnings are more expensive than the new issue of equity shares.

10 Compounding Technique is used to find out the present value of money.

11 An annuity is a series of unequal payments.

12 Gross working capital refers to the capital invested in the total assets of a firm.

Bunch IV

IV. Match the following :—

13	Viable project	(a)	Interest.
14	Dividend policy	(b)	Cost Theory.
15	Debenture	(c)	Working capital.
16	Under capitalisation	(d)	Cost of capital.
		(e)	Capital rationing.
		(f)	J.E. Walter.

(4 × 1 = 4)

Section B

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

17 What is operating leverage ?

18 What is future value of money ?

19 Define Financial Management.

20 What is meant by cost of capital ?

21 What is Price Earnings Ratio ?

22 What is Business Risk ?

23 What is Capital structure ?

24 What is meant by retained earnings ?

(5 × 1 = 5)

Section C

Answer any **four** *questions.*
Each question carries a weight of 2.

25 Discuss the applications of Time-Value techniques.

26 What are the causes of under-capitalisation ?

27 What are the functions of a Finance Manager ?

28 What are the features of an appropriate capital structure ?

29 A five year Rs. 100 debenture of a firm can be sold for a net price of Rs. 96.50. The coupon rate of interest is 14 per cent per annum, and the debenture will be redeemed at 5 per cent premium on maturity. The firm's tax rate is 40 per cent. Compute the after tax cost of debenture.

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

(4 × 2 = 8)

Section D

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

31 Discuss the advantages of debentures as a source of finance.

32 Explain the factors determining working capital.

33 The following figures relate to two companies :—

	X Ltd.	*Y Ltd.*
		(Rs. in lakh)
Sales ...	500	1,000
Variable osts ...	200	300
Contribution ...	300	700
Fixed costs ...	150	400
Interest ...	150	300
Profit before tax ...	50	100
	100	200

You are required to :

(a) Calculate the operating, financial and combined leverages for the two companies, and

(b) Comment on the relative risk position of them.

(2 × 4 = 8)