E 4133 (Pages : 3) Reg. No.................................

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

B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2012

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]

Time : Three Hours Maximum Weight : 25

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

Section A

This section consist^ *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 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.

2 Which of the following is the short-term source of fund ?

(a) Equity share. (b) Debenture.

(c) Trade credit. (d) Preference share.

3 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.

4 Financial decisions involve :

(a) Investment, financing and dividend decisions.

(b) Investment, financing and sales decision.

(c) Financing, dividend and cash decisions.

(d) None of the above.

II. Fill in the blanks :

5 Capital gearing refers to the relationship between equity capital and ———.

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

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

8 Financial leverage is also known as ———.

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

9 Discounting technique is used to find out the future value of money.

10 Capital Budgeting is also known as Financing decision.

11 Cost of Preference Share is less than the cost of debt.

12 Traditional approach confines finance function only to raising of funds.

IV. Match the following :—

13 Debenture	(a) J.E. Walter.
14 Dividend Policy	(b) Viable projects.
15 Capital Rationing	(c) Time value of Money.
16 IRR	(d) Working Capital.
	(e) Interest.
	(f) Cost of Capital.

(4 × 1 = 4)

Section B

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

17 Define Financial Management.

18 What is financial leverage ?

19 What is under capitalisation ?

20 What is meant by cost of capital ?

21 What is meant by capital structure ?

22 What is Net Operating Income approach ?

23 What is meant by Retained Earnings ?

24 What is the objective of Dividend Policy ?

(5 × 1 = 5)

Section C

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

25 Discuss the functions of a Finance Manager.

26 What are the limitations of financial leverage ?

27 Discuss the applications of Time value techniques.

28 Discuss the importance of debentures as a source of finance.

29 A Company issues 10,00,000, 10 % redeemable deter debentures at a discount of 5 %. The costs of floatation amount to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before tax and after tax cost of debt assuming a tax rate of 50 %.

30 A Company expects a net operating income of Rs. 1,00,000. It has Rs. 5,00,000, 6 % debentures. The overall Capitalisation rate is 10 %. Calculate the value of the firm and the equity capitalisation rate according to Net Operating Income approach.

(4 × 2 = 8)

Section D

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

31 Explain the factors determining Working Capital.

32 Discuss the merits of Retained Earnings as a source of Finance.

33 Prepare an estimate of Working Capital requirement from the following information of a trading concern :

(a) Projected annual sales—1,00,00 units.

(b) Selling Price—Rs. 8 per unit .

(c) Percentage of net profit on sales—25 %.

(d) Average credit period allowed to customers—8 weeks.

(e) Average credit period allowed by Suppliers—4 weeks.

(f) Average stock holding in terms of sales requirement—12 weeks.

(g) Allow 10 % for contingencies.

(2 × 4 = 8)