

**B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2013****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**

*Answer all questions.*

*Each bunch of four questions carries a weight of 1.*

I. Choose the correct answer from the choices given :

1 Basic objective of Financial Management is :

- (a) Maximisation of profits. (b) Maximisation of shareholders wealth.  
(c) Ensuring Financing discipline. (d) None of these.

2 Trade Credit is a source of :

- (a) Long-term finance. (b) Median term finance.  
(c) Short-term finance. (d) Fixed-term finance.

3 Zero coupon bonds carry :

- (a) No interest.  
(b) No maturity.  
(c) Coupons for payment of interest.  
(d) All of these.

4 According to M-M hypothesis, the value of the firm is determined by its :

- (a) Investment policy. (b) Pattern of capital structure.  
(c) Debt-equity mix. (d) Net operating income.

II. Fill in the blanks :

5 ——— refers to make up of a firm's capitalisation.

6 An over-capitalised company can pay ——— rate of dividend.

**Turn over**

- 7 Risk capital of a company consists of \_\_\_\_\_.
- 8 Networking capital is the excess of \_\_\_\_\_ over \_\_\_\_\_.

III. State whether the following are True or False :

- 9 Gross working capital refers to the capital invested in the total assets of an enterprise.
- 10 The issue of bonus shares amounts to a corresponding increase in the paid up capital of the company.
- 11 When debentures form the major part of capital it is called low gearing.
- 12 Equity shares are entitled to dividend at a fixed rate.

IV. Match the following :

- |                     |                            |
|---------------------|----------------------------|
| 13 Public deposits  | (a) Gross working capital. |
| 14 Commercial Banks | (b) Source of Finance.     |
| 15 Current Assets   | (c) Interest.              |
| 16 Equity share     | (d) Networking capital.    |
|                     | (e) Ownership funds.       |
|                     | (f) Short-term credit.     |

(4 × 1 = 4)

**Section B**

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

- 17 Define Financial Management.
- 18 Distinguish between Share and Debenture.
- 19 What is Venture Capital ?
- 20 Define overcapitalisation.
- 21 What is capital gearing ?
- 22 What is cost of capital ?
- 23 Distinguish between Gross working capital and Networking capital.
- 24 What is "Script dividend" ?

(5 × 1 = 5)

**Section C**

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

- 25 What are the advantages of issuing Bonus Shares ?
- 26 What are the determinants of working capital ?

- 27 Define Leverage. Explain its types.
- 28 What is the relevance of cost capital in corporate investment and financing decisions.
- 29 The capital structure of X Ltd. consists of equity shares capital of Rs. 1,00,000 (10,000 shares of Rs. 10 each) and 8 % debentures of Rs. 50,000. You are required to calculate financial leverage on earnings before interest and tax level of Rs. 20,000.
- 30 Explain the wealth maximisation objective of financial management.

(4 × 2 = 8)

### Section D

*Answer any two questions.*

*Each question carries a weight of 4.*

- 31 Explain the factors that determine the capital structure of a firm.
- 32 What is a debenture ? What are its features ? State the pros and cons of debentures from the company's point of view.
- 33 What are the major types of financial decisions that a business firm makes ?

(2 × 4 = 8)