

B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2015**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

Part A

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

1. What is financial management ?
2. What do you mean by time value of money ?
3. Define cost of capital.
4. What do you mean by leverage ?
5. What is gross working capital ?
6. What do you mean by stock split ?
7. What is payout ratio ?
8. What do you mean by financing decision ?
9. What do you mean by conservative dividend policy ?
10. What is discounting ?

(10 × 1 = 10)

Part B

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

11. What do you understand by the term trading on equity ?
12. What do you mean by financial leverage ?
13. What do you mean by overall cost of capital ?

Turn over

14. What is a bonus share ?
15. What is meant by dividend decision ?
16. What do you mean by capital structure ?
17. Differentiate between redeemable and irredeemable debt.
18. What are the objectives of financial management ?
19. What do you mean by retained earnings ?
20. Write a note on Walter's model of dividend theory.
21. Differentiate between an equity share and a preference share.
22. What is liquidity ?

(8 × 2 = 16)

Part C

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

23. Define the scope of financial management. What role should the financial manager play in a modern enterprise ?
24. "Debt is the cheapest source of funds". Explain.
25. Give arguments to support the view that dividends are relevant.
26. What are the factors determining the dividend policy ?
27. How is the weighted average cost of capital calculated ? What weights should be used in its calculation ?
28. Explain Net Income approach.
29. What are the different methods of estimating working capital needs of an organisation ?
30. Define cost of capital. Explain the process of calculating specific and overall cost of capital.
31. The Ess Kay Refrigerator Company is deciding to issue Rs. 20,00,000 of Rs. 1,000, 14 %, 7 year debentures. The debentures will have to be sold at a discount rate of 3%. Further, the firm will pay an underwriting fee of 3% of the face value. Assume a 35 % tax rate.

(6 × 4 = 24)

Part D

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

32. Explain MM theory of dividend.
33. Explain the factors that determine working capital needs of an organisation.
34. Write an essay on the various sources of short term financing.

35. Two companies Anand Ltd. and Seetha Ltd. have the following information :—

Rs. Lakh

<i>Name of the Company</i>	<i>Sales</i>	<i>Variable Cost</i>	<i>Fixed Costs</i>
Anand Ltd.	1,800	450	900
Seetha Ltd.	1,500	750	375

You are required to calculate (a) profit to sales ratio ; (b) breakeven point ; and (c) the degree of operating leverage for both firms.

Comment on the positions of the firms. If sales increase by 20 % what shall be the impact on the profitability of the two companies ?

(2 × 15 = 30)