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K – 2489

Reg. No. :

Name :

Third Semester B.Com. Degree Examination, March 2021

First Degree Programme Under CBCSS

Elective Course I – Stream 1 – Finance

CO 1361.1 — FINANCIAL MANAGEMENT

(2019 Admission Regular)

Time : 3 Hours

Max. Marks : 80

SECTION – A

Answer **all** questions in **1** or **2** sentences each. Each question carries **1** mark.

1. What do you understand by trading on equity?
2. What do you mean by cost of retained earnings?
3. What is optimal capital structure?
4. What is operating leverage?
5. What do you understand by 'point of indifference'?
6. What is meant by scrip dividend?
7. Define capital budgeting.

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8. What is payback period method?
9. What is trade credit?
10. Name two constituents of current liabilities.

(10 × 1 = 10 Marks)

SECTION – B

Answer any **eight** questions in not exceeding **1** paragraph each. Each question carries **2** marks.

11. What are the objectives of finance function?
12. Distinguish between explicit cost and implicit cost.
13. Give a brief account of the significance of cost of capital.
14. Write a short note on Net Operating Income Approach.
15. What do you mean by degree of financial leverage?
16. What is meant by capital rationing?
17. What are the limitations of Payback Period Method?
18. What is internal rate of return?
19. Name any two advantages of a regular dividend policy.
20. Give any two assumptions of Miller and Modigliani 'dividend irrelevance theorem'.
21. List out the main objectives of inventory management.
22. What do you mean by JIT inventory control system?

23. What do you understand by ABC analysis?
24. What is Lock Box System?
25. X Ltd. issues Rs. 50,000 8% debentures at par. The tax rate applicable to the company is 50%. Calculate the cost of debt capital.
26. A company issues 10,000 10% Preference Shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued at par.

(8 × 2 = 16 Marks)

SECTION – C

Answer any **six** questions in not exceeding **120** words. Each question carries **4** marks.

27. What are the functions of a finance manager?
28. Explain Net Assets Method of Valuation of Shares.
29. What are the uses of financial leverage?
30. What do you understand by financial decisions? Discuss the major financial decisions.
31. Explain the Net Income Approach Theory of capital structure.
32. What are the assumptions of Gordon's Dividend Capitalization Model?
33. Briefly explain the various kinds of working capital.
34. What are the motives for holding cash?

35. Ericson Ltd. had 50,000 equity shares of Rs. 10 each outstanding on January 1. The shares are currently being quoted at par in the market. In the wake of the removal of dividend restraint, the company now intends to pay a dividend of Rs. 2 per share for the current calendar year. It belongs to a risk class whose appropriate capitalization rate is 15%. Using MM model and assuming no taxes, ascertain the price of the company's share as it is likely to prevail at the end of the year (i) when dividend is declared, and (ii) when no dividend is declared.

36. A Ltd. has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for expansion and modernization plans. The company plans the following two schemes:

(a) All common stock; and

(b) Rs. one lakh in common stock and Rs. two lakh in 10% debentures.

The company's expected earnings before interest and tax (EBIT) are Rs. 1,50,000. The corporate tax rate is 50%.

You are required to determine the Earnings Per Share (EPS) in each plan.

37. A company issued 10,000, 10% preference shares of Rs. 10 each. Cost of issue is Rs. 2 per share. Calculate cost of capital if these shares are issued (a) at par and (b) at 10% premium.

38. Compute the Economic Order Quantity from the following particulars:

Annual Usage : 6,000 units

Cost of materials per unit : Rs. 20

Cost of placing and receiving one order : Rs. 60

Annual carrying cost of one unit : 10% of inventory value

(6 × 4 = 24 Marks)

SECTION – D

Answer any **two** questions in not exceeding **4** pages each. Each question carries **15** marks.

39. Define financial management. Discuss the scope and significance of financial management.
40. What is meant by capital structure? Discuss the factors determining the capital structure.
41. Discuss the various types of dividend policies.
42. Discuss in detail the different methods of estimating working capital requirements.
43. Sales levels are 1,000 units and 1,400 units. The per unit cost is Rs. 10. Variable cost is Rs. 7 per unit. Fixed cost is Rs. 1,000. Calculate the Degree of Operating Leverage and interpret the result.
44. From the following details you are required to make an assessment of the average amount of working capital requirement of XYZ Ltd.:

Items	Average Period of Credit	Rs.
Purchase of material	6 weeks	26,00,000
Wages	1 ½ weeks	19,50,000
Overheads:		
Rent, rates etc.	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000

Sales (Cash)	—	2,00,000
Sales (Credit)	2 months	60,00,000
Average amount of stock and work-in-progress	—	4,00,000
Average amount of undrawn profit		3,00,000

It is assumed that all expenses and income were made at even rate for the year.

(2 × 15 = 30 Marks)
