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K19U 2563

Reg. No. :

Name :

III Semester B.Com. Degree (CBCSS-Reg./Sup./Imp.)

Examination, November - 2019

(2014 Admn. Onwards)

CORE COURSE (OPTIONAL)

3B06 COM(FINANCE): FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 40

PART - A

- I. Answer **All** Questions. Each question carries $\frac{1}{2}$ mark. **(4x $\frac{1}{2}$ =2)**
1. is the basic objective of financial management.
 2. refers to long term planning of proposed capital outlays.
 3. firm's investment in total current assets.
 4. Mix of long term fund in the total capitalisation is called

PART - B

- II. Answer any **Four** questions. Each question carries **One** mark. **(4x1=4)**
5. What do you mean by financial management?
 6. What is ARR?
 7. What is net working capital?
 8. What is financial breakeven?
 9. Define cost of capital.
 10. What is weighted average cost of capital?

PART - C

- III. Answer any **Six** questions (not exceeding One page). Each question carries **Three** marks. **(6x3=18)**
11. Discuss the scope of financial management.
 12. 'Maximizing wealth is a better goal than maximising profit'. Explain.
 13. A project requires an initial investment of Rs. 2,00,000 and it provides annual inflows for 5 years as Rs. 60,000, Rs.80,000, Rs.50,000, Rs.40,000 and Rs. 40,000 respectively. Calculate payback period of the proposal.

P.T.O.



14. Write a note on various determinants of working capital.
15. What are the dangers of working capital deficit?
16. What are the determinants of capital structure?
17. Zoya Ltd. Issued 2000 7% preference shares of Rs.100 each at a premium of 10 % redeemable after 5 years at par. Calculate cost of preference capital.
18. Explain briefly various source of long term finance.

PART - D

IV. Answer any **Two** questions. Each question carries **8** marks. (2×8=16)

19. Briefly discuss the role of a finance manager in a firm.
20. A project requires an initial outlay of Rs. 3,80,000. The cost of capital is 12%. It generates the following cash flows.

Year	Cash inflows (Rs.)
1	80,000
2	1,00,000
3	1,20,000
4	1,40,000
5	80,000
6	20,000
7	1,60,000

Calculate NPV and suggest whether the project should be accepted or not.

21. Calculate cost of debt capital in the following cases.
 - a) Royal Ltd. Issued Rs. 10,00,000 8% debentures at a discount of 5%. The tax rate is 50%. Compute cost of debt capital.
 - b) Moon Ltd. Issued Rs. 20,00,000 9% debentures at a premium of 10%. The flotation costs are 2%. The tax rate applicable is 60%. Compute cost of debt capital.

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Answer Key

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PART-A

I. Answer all questions. Each carries $\frac{1}{2}$ marks.

- 1) Maximising shareholders wealth.
- 2) Capital budgeting
- 3) Gross working capital
- 4) Capital structure

(4 X $\frac{1}{2}$ = 2)

PART- B

II. Answer any four questions. Each carries one mark.

- 5) Management of flows of money through an organisation.
- 6) It is the average yield of a capital investment proposal
- 7) Excess of current asset over current liability is called net working capital.
- 8) It is the level of EBIT at which a firm will be in a position to satisfy all fixed financial charges.
- 9) According to Solomon Ezra "It is the minimum required rate of return for capital expenditures".
- 10) It is the average cost of various source of finance.

(4 X 1 = 4)

PART-C

III. Answer any six questions (not exceeding one page). Each carries three marks.

11) a) Traditional approach: it includes three inter related aspects. They are

- Capital market
- Financial instruments
- Procedural and legal aspects

b) Transitional approach: This approach emphasis on the day to day problems faced by financial managers in the area of fund analysis, planning and control

c) Modern approach: This covers three broad areas, namely, finance decision, investment decision and dividend decision.

12) Wealth maximisation is a superior goal of financial management because of the following reasons

- a) Profit maximisation measures performance of a firm in terms of profit only. It does not consider the risk associated with profit maximising goal. It ignores the effect of EPS,

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dividend paid and other returns to shareholders. Wealth maximisation objective covers all these aspects.

b) A firm that wishes to profit maximisation may opt not to declare any dividend to shareholders.

13) Pay-back period = 2.96 years

14) Important determinants of working capital are:

- a). Nature of the business
- b). Length of production process
- c). Length of operating cycle
- d). Production policy
- e). Credit policy
- f). Depreciation policy
- g). Changes in the price level
- h). Operating efficiency

15) Dangers of working capital deficiencies are:

- a). Loss of credibility
- b). May lead to business failure
- c). Loss of both trade and cash discount
- d). cannot take advantage of new opportunity
- e). Legal actions from the part of creditors
- f). Fixed assets become idle
- g). It affects dividend policy adversely

16) Following are determinants of capital structure of a firm:

- a). Profitability
- b). Liquidity
- c). Flexibility
- d). Size of business
- e). Period of financing
- f). Purpose of financing
- g). Trading on equity
- h). Desire to retain control
- i). Asset structure of the firms
- j). Nature of business

17) Cost of preference capital = 4.67%

18) Sources of long term finance are:

- Equity shares
- Preference shares
- Retained earnings
- Term loans
- Debentures
- Warrants
- Lease financing
- Depository receipts

(6 X 3 = 18)

PART- D

IV. Answer any two questions. Each carries eight marks.

19) Role of finance manager

- Financial planning
- Procurement of fund
- Controlling use of fund
- Profit appropriation
- Ensuring satisfactory return to shareholders
- Ensure satisfactory wage and working condition to employees
- Fulfilling legal requirements

20) NPV = 73440, so the proposal is profitable.

21)

- a) Cost of debenture = 4.21%
- b) Cost of debenture = 3.34 %

2 X 8 = 16)