

TB153640C

Reg. No:

Name:

BMS DEGREE (C.B.C.S.S.) EXAMINATION OCTOBER 2016
SEMESTER III– CORE COURSE (INTERNATIONAL BUSINESS)
CO3C07TB – FINANCIAL MANAGEMENT

Time: Three Hours.

Maximum Marks: 80

PART A

I. Answer all the questions. Each question carries 1 mark.

1. What do you mean by cost of capital?
2. Define financial management.
3. Define financial leverage.
4. What is working capital?
5. Define capital budgeting.
6. Define capital structure.

(6x1=6)

PART B

II. Answer any seven of the following questions. Each question carries 2 marks.

7. Define optimum capital structure.
8. What are the functions of a financial manager?
9. What is EPS? How is it calculated?
10. What is the purpose of preparing a cash flow statement?
11. What is NPV?
12. What is payback period?
13. What is negative working capital?
14. How does credit policy affect working capital requirement?
15. What is dividend?
16. What are the different forms of dividend?

(7x2=14)

PART C

III. Answer any five of the following questions. Each question carries 6 marks.

17. What are operating and combined leverage?
18. What is IRR?
19. What are the disadvantages of excessive working capital?
20. What are the factors affecting working capital requirements?

21. What are the factors that influence capital structure?
22. What do you mean by cost of debt?
23. ABC Ltd proposes to start a new project at a cost of 10, 00,000. The company has two financing schemes under consideration.
Scheme I: Issue of 60,000 equity shares of 10 each and 12% loan of 4, 00,000.
Scheme II: Issue of 30,000 equity shares of 10 each and 10% debentures of 7, 00,000.
The company has already issued 1, 00,000 equity shares of 10 each.
Compare the schemes and suggest which one is better to magnify the EPS if the expected profit for the year would be 5, 50,000.
24. Explain the operating cycle concept of working capital management.

(5x6=30)

PART D

IV. Answer any two of the following questions. Each question carries 15 marks.

25. What are the factors affecting dividend policy?
26. The balance sheet of Sun Ltd for the years ended 31st march 2006 and 2005 were summarized as follows:

	2006	2005
Equity capital	60,000	50,000
Profit and loss account	5,000	4,000
Current liabilities:		
Creditors	4,000	2,500
Taxation	1,500	1,000
Proposed dividends	2,000	1,000
	72,500	58,500
Fixed assets:		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Short term investments	2,000	1,000
Current assets:		
Stock	17,000	14,000
Debtors	8,000	6,000
Bank and cash	6,000	8,500
	72,500	58,500

And the profit and loss account for the year ended 31st march 2006 disclosed

Profit before tax	4,500
Taxation	(1,500)
Profit after tax	3,000
Proposed dividends	(2,000)

Retained profits	1,000	
Further information available:		
	Vehicles	fixtures
Depreciation for the year	1,000	2,500
Proceeds on disposal	-	1,700
Written down value	-	(1,000)
Profit on disposal		700

Prepare cash flow statement for the year ended 31st march 2006.

27. TTK Ltd is considering investment proposals A and B. project A has a capital outlay of 20 lakhs while project B needs initial investment of 22 lakhs. The company expects cash inflows from the projects as given below.

Year	Project A	Project B
1	5, 00,000	6, 00,000
2	6, 00,000	7, 00,000
3	8, 00,000	8, 00,000
4	10, 00,000	9, 00,000
5	5, 00,000	10, 00,000

The overall cost of capital of the company has been worked out at 12%. Assuming risk premium rates of 3% and 5% for project A and B respectively determine the project to be selected.

28. What are the factors to be considered while estimating working capital?

(2x15=30)