TB153210A

Reg. No: .....................................

Name: ..........................................

**B.COM. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2016**

**SEMESTER III - CORE COURSE (COMMERCE)**

**CO3B13B - FINANCIAL MANAGEMENT**

**Time: Three Hours** **Maximum Marks: 80**

## PART A

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

1. What is optimum capital structure?
2. What is the concept of time value of money?
3. What is stock split?
4. What is regular working capital?
5. What do you mean by operating leverage?
6. What is weighted average cost of capital?

**(6×1=6)**

## PART B

**II. Answer any seven questions. Each question carries 2 marks**

7. Distinguish between shares and debentures.
8. What is wealth maximisation approach?
9. What do you mean by compounding?
10. What do you mean by point of indifference?
11. Distinguish between implicit cost and explicit cost.
12. What is stable dividend policy?
13. What is over capitalisation? Give two reasons.
14. What is operating cycle method of estimating working capital?
15. What is arbitrage process?
16. What is redundant working capital?

**(7×2=14)**

## PART C

**III. Answer any five questions. Each question carries 6 marks**

17. Distinguish between capital structure and capitalisation.
18. Explain Net Operating Income approach.
19. What do you mean by Ploughing back of profit? State its advantages.
20. What are the different types of working capital?
21. State the advantages and disadvantages of stable dividend policy.
22. Explain briefly the factors determining cost of capital.
23. What are the criticisms against profit maximisation?
24. A firm has sales of Rs. 40,00,000, variable cost Rs. 28,00,000, fixed cost Rs. 8,00,000 and debt of Rs. 20,00,000 at 10% rate of interest.

Calculate:

a) Operating Leverage, b) Financial Leverage, c) Combined Leverage and d) If the firm wants to double the EBIT how much increase in sales would be needed on a percentage basis?

**(5×6=30)**

## PART D

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

25. What is Financial Management? Explain its scope and objectives.
26. What is working capital? What are the factors determining working capital requirements?
27. The existing capital structure of XYZ Ltd. is as under:

| | |
|---|---|
| Equity shares of Rs. 100 each | Rs. 40,00,000 |
| Retained Earnings | Rs. 10,00,000 |
| 9% Preference shares | Rs. 25,00,000 |
| 7% Debentures | Rs. 25,00,000 |

The company earns 12% on its capital. The income tax rate is 50%. The Company requires a sum of Rs. 25,00,000 to finance its expansion programme for which it is considering the following alternatives:

i) Issue of 20,000 equity shares at a premium of Rs. 25 per share.

ii) Issue of 10% preference shares.

iii) Issue of 8% debentures.

It is estimated that the P/E ratios in the cases of equity, preference and debenture financing would be 20, 17 and 16 respectively.

Which of the above financing alternatives would you recommend and why?

28. Which are the various dividend theories? State the impact of dividend decision on the value of firm under each theory.

**(2×15=30)**