(Pages : 6) **N – 2703**

Reg. No. : ....

Name : ....

Third Semester B.Com. Degree Examination, March 2022

First Degree Programme Under CBCSS

Elective Course I

Stream I – Finance

CO 1361.1 – FINANCIAL MANAGEMENT

(2019 & 2020 Admission)

Time : 3 Hours Max. Marks : 80

SECTION – A

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

1. What is business finance?

2. Name the various methods for computing cost of equity capital.

3. What are retained earnings?

4. Name various theories of capital structure.

5. What is financial leverage?

6. What is capital budgeting?

7. State the Gordon's formula.

8. What is stock split?

P.T.O.

9. What is operating cycle?

10. What is optimum cash balance?

(10 × 1 = 10 Marks)

SECTION – B

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

11. What is financial management process?

12. What is cost of capital?

13. What is the advantage of applying market value weights while computing WACC?

14. What is capital structure?

15. What is combined leverage?

16. What is trading on equity?

17. What is the importance of capital budgeting?

18. What is stable dividend policy?

19. What is meant by bonus issue?

20. What is net working capital?

21. Define credit policy.

22. What is receivable management?

23. What is meant by ageing schedule?

24. What is EOQ?

25. Present dividend per share ₹ 10, Dividend payout ratio 60% and Growth rate 8%. Calculate the expected dividend for next year.

26. Return available to shareholders is 15%. The average tax rate of shareholders is 40% and it is expected that 2% is brokerage cost that shareholders will have to pay while investing their dividends in alternative securities. What is the cost of retained earnings?

(8 × 2 = 16 Marks)

SECTION – C

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

27. What role does a finance manager play for a modern firm?

28. What are the components of cost of capital?

29. Explain Net Operating Income approach of capital structure.

30. Explain different types of dividend.

31. List any four sources of short term finance.

32. What are the advantages of adequate working capital?

33. Calculate Degree of Financial Leverage.

    Contribution ₹ 20,000

    Fixed cost ₹ 15,000

    10% Debt ₹ 37,500

34. B Ltd issued 12% debentures of ₹ 1,00,000 at a premium of 10% with a floatation cost of 2%. The company pays corporate tax @ 40%. Determine the after tax cost of debt.

35.

Annual requirement	1,600 units
Cost of material per unit	₹ 40
Cost of planning and receiving an order	₹ 50
Annual carrying cost of inventory	10% of inventory value.

Calculate EOQ.

36. A firm having an annual opportunity cost of 15% is contemplating installation of a lock box system at an annual cost of ₹ 3,00,000. The system is expected to reduce mailing time by 4 days and reduce cheque clearing time by 3 days. If the firm collects ₹ 4,00,000 per day, would you recommend the system?

37. From the following information calculate the average collection period.

Opening Accounts receivables ₹ 60,000

Closing accounts receivables ₹ 40,000

Annual credit sales ₹ 6,00,000

38. The earnings per share of a company are ₹ 12. Its equity capitalization rate is 12.5% and the return on investment rate is 20%. Using Walter's formula, calculate the price share if the company adopts a payout ratio of (a) 100% (b) 40%.

(6 × 4 = 24 Marks)

SECTION – D

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

39. List the various techniques of capital budgeting.

40. Explain the determinants of dividend policy of a firm.

41. Explain the inventory management techniques adopted in a manufacturing concern.

42. Prepare an estimate of working capital requirement from the following information of a trading concern:

Project annual sales	1,00,000 units
Selling Price	₹ 8 per unit
Percentage of net profit on sales	25 %
Average credit period allowed to customers	8 weeks
Average credit period allowed by suppliers	4 weeks
Average stock holding in terms of sales requirement	12 weeks

Allow 10% for contingencies.

43. Two firms X and Y are identical in all respects, including risk factors except for debt and equity. X has issued 10% debentures of ₹ 18,00,000 while Y has issued only equity. Both the firms earn 20% before the interest and taxes on their total assets of ₹ 30,00,000. Assuming a tax rate of 50% and capitalization rate of 15% for an all equity firm, compute the value of companies X and Y, using net income approach.

44. The capital structure of S Ltd. is as under:

	₹
2,000,6% ₹ 100 Debentures	2,00,000
1,000, 7% ₹ 100 Debentures	1,00,000
2,000, 8% Cumulative Preference Shares of ₹ 100 each	2,00,000
4,000 Equity Shares of ₹ 100 each	4,00,000
Retained Earnings	1,00,000

The earning per share of the company in past many years has been ₹ 15. The shares of the company are sold in the market at the book value. The company tax rate is 50% and shareholders tax rate is 25%. Find out the weighted average cost of capital.

(2 × 15 = 30 Marks)