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Reg. No. : ....

Name : ....

Third Semester B.Com. Degree Examination, January 2023

First Degree Programme Under CBCSS

Elective Course I – Stream – 1-Finance

CO 1361.1 – FINANCIAL MANAGEMENT

(2019 Admission Onwards)

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 financial management?
2. What are debentures?
3. What is cost of retained earnings?
4. Differentiate between implicit and explicit cost of capital.
5. Define capital structure.
6. What is operating leverage?
7. What is scrip dividend?
8. "Dividend is not relevant in determining the value of the company". Who holds this opinion?
9. What is trade credit?
10. What is Miller Orr Model?

(10 × 1 = 10 Marks)

P.T.O.

SECTION – B

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

11. What is corporate finance?
12. Explain the significance of cost of capital.
13. What is weighted average cost of capital?
14. What is optimum capital structure?
15. What is capital gearing?
16. What is composite leverage?
17. Explain various types of investment projects.
18. What is dividend payout ratio?
19. How does Gordon's model differ from Walter's model?
20. What are the objectives of capital budgeting decisions?
21. What is gross working capital?
22. What is the purpose of receivable management?
23. What is ABC analysis?
24. What is factoring?
25. Earnings per share Rs. 10, Dividend per share Rs. 6. Calculate retention ratio.
26. A firm's cost of equity is 18%, the average income tax rate of shareholders is 30% and brokerage cost of 2% is excepted to be incurred while investing their dividends in alternative securities. Compute 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 are the basic financial decisions?
28. What are the different approaches to the calculation of cost of equity?

29. What are the major determinants of capital structure?

30. What is capital budgeting decision?

31. What is the significance of stable dividend?

32. What are the dangers associated with insufficient working capital?

33. Calculate Degree of Operating Leverage.

    Sales Rs. 1,00,000

    Variable cost Rs. 40,000

    Fixed cost Rs. 30,000

34. M Ltd. has annual sales of Rs. 36,50,000. The company has investment opportunities in the money market to earn a return of 15% per annum. If the company could reduce its float by three days, what would be the increase in company's total return?

35. ABC Ltd. purchases 9,000 units of spare parts for its annual requirement. Each spare part costs Rs. 20. The ordering cost per order is Rs. 15 and the carrying charges are 15% of unit cost. Calculate EOQ.

36. A firm's credit sales are Rs. 40,00,000 a year. The opening debtors are Rs. 5,00,000 and closing debtors are Rs. 3,00,000. Determine receivable turnover ratio.

37. Y Ltd issued Rs. 2,00,000, 9% debentures at a premium of 10%. The costs of floatation are 2%. The tax rate is 50%. Compute the after tax cost of debt.

38. P Ltd. received an order for supply of a product from X Ltd. for Rs. 10,00,000. Cost of sales is 80% of sales. It has been estimated that probability of non-recovery in case X Ltd. is bankrupt is 25%. Determine whether the offer should be accepted.

(6 × 4 = 24 Marks)

SECTION – D

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

39. List various sources of long term finance.

40. Discuss the factors affecting the dividend policy.

41. Define cash management. Explain its importance

42. A company has an EBIT of Rs. 5,00,000 and the overall cost of capital 10%. The company has debt of Rs. 30,00,000 borrowed at the rate of 8%. Find the value of the company and the equity capitalization rate using NOI approach. What will be the effect on the value of the firm and the equity capitalization rate if the debt is increased to Rs. 40,00,000?

43. S Ltd. manufactures product X and a proforma Cost Sheet of it is as under:

	Rs. (per unit)
Raw Materials	160
Direct Labour	60
Overheads	120
Total cost	340
Profit	60
Selling Price	400

Additional information:

(a) Raw Materials are in stock on average for one month.

(b) Finished goods are in stock on average for one month.

(c) Credit allowed by suppliers is one month and that allowed to customers is two months.

(d) Lag in payment of wages is 1½ weeks and in payment of Overheads is one month.

(e) One-fourth of output is sold against cash.

(f) Cash in hand is estimated to be Rs. 50,000.

Assuming a level of activity producing 52,000 units, prepare an estimate of Working Capital requirements.

44. Earnings per share of a company is Rs. 10 and market capitalization rate is 10%. The company has before it an option of adopting a payment ratio of 50%, 75% and 100%. Using Walter's formula of dividend pay-out, compute the market value of the Company's Share, if the rate of return on internal investment is

(a) 15% (b) 8%

(2 × 15 = 30 Marks)