E 8525 (Pages : 3) Reg. No.....

Name.....

B.Com. DEGREE (C.B.C.S.S.) EXAMINATION, OCTOBER 2019

Third Semester

FINANCIAL MANAGEMENT

[Common for (1) Model I B.Com.–Optional Stream Finance and Taxation (2) Model II B.Com. Optional Stream–Finance and Taxation and U.G.C. Sponsored Programmes, (3) Computer Applications, (4) Travel and Tourism, (5) Taxation]

(2013—2016 Admissions)

Time : Three Hours Maximum Marks : 80

Part A (Short Answers)

Answer **all** *questions.*

Each question carries 1 *mark.*

1. What do you mean by present value ?
2. What do you mean by opportunity cost of capital ?
3. What do you mean by composite cost of capital ?
4. What do you mean by floatation cost ?
5. What do you mean by an unlevered firm ?
6. What is pay-out ratio ?
7. What do you mean by share split ?
8. What is a bonus share ?
9. What is cash dividend ?
10. What do you mean by financial management ?

(10 × 1 = 10)

Part B (Short Answers)

Answer any **eight** *questions.*

Each question carries 2 *marks.*

11. What do you mean by discounting ?
12. What do you mean by cost of equity ?

Turn over

13. What is leverage ?

14. What do you mean by market value weights ?

15. What do you mean by over capitalization ?

16. What do you mean by preference share ?

17. What is meant by residual claim ?

18. What do you mean by wealth maximization ?

19. What do you mean by perpetual debt ?

20. Why does arbitrage happen ?

21. Differentiate between implicit and explicit cost ?

22. What is meant by gross working capital ?

(8 × 2 = 16)

Part C (Short Essays)

Answer any **six** *questions.*
Each question carries 4 *marks.*

23. What are the objectives of financial management ?

24. What are the factors affecting the capital structure of a firm ?

25. Explain the various sources of financing available to a financial manager ?

26. Explain the concept of trading on equity.

27. What do you mean by conservative dividend policy ? What are the reasons for a conservative dividend policy ?

28. How cost of capital is calculated for redeemable and irredeemable debt ?

29. Write a short essay on the Net Income approach of capital structure.

30. Does financial leverage always increase the earnings per share ?

31. A company sells a new issue of 10 years, 12% bonds of Rs. 100 each, at par. It will pay interest annually and repay bonds at 10% premium on maturity. What is the cost of bonds ? If the tax rate is 30%, what is the after-tax cost of the bond ?

(6 × 4 = 24)

Part D (Essays)

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

32. What do you mean by cost of capital ? Explain the different steps involved in the calculation of cost of different sources of capital ?

33. What do you mean by financial management ? Explain its scope.

34. What is meant by working capital ? Explain the various methods used for estimation of working capital needs of a firm.

35. The Krishna company has the following capital structure on 30th June 2017 :

		(Rs. '000)
Ordinary shares	...	4,000
10% Preference shares	...	1,000
14% Debentures	...	3,000
		8,000

The share of the company sells for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 share, which will grow at 7% forever. Assume a 50% tax rate. You are required to compute weighted average cost of capital based on the existing capital structure.

(2 × 15 = 30)