

ST. ALOYSIUS COLLEGE, EDATHUA

II Internal Examination October 2016 B.com Third Semester

FINANCIAL MANAGEMENT

Total marks: 80

Time: 3 hours

Section A

Answer all questions. Each question carries 1 mark.

1. What do you mean by profit maximization concept?
2. Define capitalisation.
3. What is operating leverage?
4. What is meant by cost of capital?
5. What do you mean by retained earnings?
6. State the term revolving capital.
7. Explain the term stock dividend.
8. State the assumptions of MM approach to determine the capital structure.
9. What are the objectives of making bonus issue?
10. What is financial break-even point?

Section B

Answer any 8 questions. Each question carries 2 marks.

11. State the differences between the term capitalisation and capital structure.
12. Write a short note on net income approach.
13. Explain the significance of cost of capital.
14. Discuss the term sweat equity share.
15. Differentiate between permanent and temporary working capital.
16. What is meant by dividend decision?
17. Explain the concept of working capital cycle.
18. Explain the term point of indifference.
19. What are the limitations of profit maximization goal?
20. What is optimum capital structure?
21. State the advantages of adequate working capital.
22. A company has sales of Rs. 5,00,000. Variable cost of Rs. 3,00,000. Fixed cost of Rs. 1,00,000. Long term loan of Rs. 4,00,000 at 10 % interest. Calculate the 3 types Of leverage.

Section C

Answer any 6 questions. Each question carries 4 marks

23. Which are the different methods used for calculating cost of equity capital. Explain each Of them.
24. Discuss the practical applications of time value of money.
25. What are preference shares? Explain the various types of preference shares.
26. Briefly discuss the scope of financial management.
27. Explain the traditional approach of capital structure theory.
28. Discuss the various forms of dividends.
29. Write a note on the various factors determining the capital structure.
30. What are the advantages and disadvantages of issuing debentures?
31. A company issues Rs. 10,00,000 , 10% redeemable debentures at a discount of 5%. The Cost of flotation is Rs. 30,000. Debentures are redeemable after 5 years at par. Calculate the cost of debt after tax.

Section D

Answer any 2 questions. Each question carries 15 marks.

32. Explain in detail the factors determining working capital.
33. Bring out the various factors which influence the dividend decision of a firm.
34. Critically evaluate the differences between shares and debentures as sources of finance and discuss the various advantages and disadvantages of using debentures as a source.
35. A proforma cost sheet of a company provides the following particulars;
The expected ratios of cost to selling price:
Raw materials - 40%
Labour - 10%
Overheads - 30%
 - a.) Raw materials are to remain in stores on an average 6 weeks.
 - b.) Every unit of production remains in process for 4 weeks.
 - c.) Finished goods remain in warehouse for 8 weeks.
 - d.) Credit period allowed to customers is 10 weeks.
 - e.) Lag in payment of wages is 2 weeks.
 - f.) Credit allowed by suppliers is 4 weeks.
 - g.) Selling price is Rs. 50 per unit.
 - h.) Cash balance is maintained at Rs. 25,000 as a precautionary balance.

You are required to prepare an estimate of working capital requirements expecting 10% margin for contingencies for a level of activity of 1,30,000 units of production.