



K21P 0808

Reg. No. : .....

Name : .....



II Semester M.Com. Degree (CBSS – Reg./Suppl. (Including Mercy  
Chance)/Imp.) Examination, April 2021  
(2014 Admission Onwards)  
COM2C10 – FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 60

SECTION – A

Answer **any four** questions in this Section. **Each** question carries **1** mark for Part (a),  
**3** marks for Part (b), and **5** marks for Part (c). (4×9=36)

1. a) Explain wealth maximization with reference to society.  
b) What are the functions of finance manager ?  
c) What are the assumptions and implications of NI approach ? Is there an optimal capital structure as per NI approach ?
2. a) What is optimal capital structure ?  
b) Differentiate between the business risk and financing risk of a firm. How are they measured by the leverage ?  
c) What is combined leverage ? Examine its significance in financial planning of a firm.
3. Write short notes on :  
a) Walter's Approach to dividend policy.  
b) Gordons Approach to relevance of dividend decision.  
c) Residuals theory of dividend.
4. a) What is adequacy of working capital ?  
b) What is operating cycle concept ?  
c) Examine the importance of trade credit and accrued expenses as a source of working capital financing.

P.T.O.



5. a) What is Concentration banking ?  
b) What are the motives for holding cash ?  
c) Explain the EOQ model of inventory control. What are its shortcomings.
6. a) What are the costs associated with receivables ?  
b) What are Credit terms ? Explain the role of credit terms in a credit policy.  
c) "Average age of receivables is an important yardstick of testing the efficiency of receivables management". Explain.

## SECTION – B

Answer the **two** questions in this Section. **Each** question carries **12** marks. (2×12=24)

7. a) From the following illustration extracted from the books of the manufacturing concern, compute the operating cycle in days.

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(₹ '000')
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of goods sold for the year	10,500
Sales for the year	16,000
<b>Value of Average stock maintained :</b>	
Raw materials	320
Work-in progress	350
Finished goods	260

OR

- b) Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern ?



8. a) The following information is available in respect of the rate of return on investment( $r$ ), the cost of capital ( $K$ ) and earning per share ( $E$ ) of ABC Ltd.

Rate of return on investment( $r$ ) = (i) 15 % ; (ii) 12% ; (iii) 10%

Cost of capital = (k) 12%

Earnings per share = (E) ₹ 10

Determine the value of its share using Gordon's Model assuming the following :

	D/p ratio (1-b)	Retention ratio (b)
a)	100	0
b)	80	20
c)	40	60

OR

- b) There is strong view prevalent among financial experts that the irrelevant hypothesis underlying the MM theory of dividend distribution is outdated and unsuited to present conditions. Do you agree with this view ? Discuss.
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