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47 (4) FIMN 4-3

2015

FINANCIAL MANAGEMENT

Paper : 4-3

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks with appropriate word words :

1×5=5

(a) The full form of E.B.I.T. is _____.

(b) _____ is the relationship between equity capital and debt capital.

(c) A fixed rate of interest is payable on _____.

(d) Cost of equity captial = _____.

(e) Bonus shares are issued to _____ shareholders.

2. Answer the following very briefly : 1×5=5

(a) What is time value of money ?

Contd.

- (b) What is under-capitalisation ?
- (c) What is operating leverage ?
- (d) What is dividend ?
- (e) What is a debenture ?
3. Answer the following : (**within fifty** words each) $2 \times 5 = 10$
- (a) What is capital structure ?
- (b) State *two* objectives of financial management with short explanation.
- (c) State *any two* causes of over-trading.
- (d) What is trading on equity ?
- (e) What is overall cost of capital ?
4. Answer / solve the following : (**any four**) $5 \times 4 = 20$
- (a) What is the scope of financial management ? Explain. 5
- (b) Explain *any five* characteristics of equity shares.
- (c) Write a note on the finance functions. 5
- (d) A company has an expected net income of ₹80,000. It has 8% Debenture of ₹2,00,000. The equity capitalisation rate of the company is 15%. You are required to compute the value of the firm and the overall capitalisation rate according to Net Income Approach. $3 + 2 = 5$

- (e) Write short notes on *any two* theories of capital structure. $2\frac{1}{2} + 2\frac{1}{2} = 5$
- (f) Explain Walter's model of dividend decision. 5
5. Answer / Solve the following : (**any five**) $8 \times 5 = 40$
- (a) Briefly explain *four* causes and *four* remedies of over-capitalisation. $4 + 4 = 8$
- (b) Explain *any five* factors that have an impact on the dividend decision of a company. Write a short note on dividend pay-out ratio. $5 + 3 = 8$
- (c) Explain *any four* types of debentures. How is cost of debt calculated ? $4 + 4 = 8$
- (d) Write a detailed note on the role of SEBI in the issue of capital. 8
- (e) Super Co. Ltd. has currently an all equity capital structure consisting of 50,000 equity shares of ₹100 each. The management is planning to raise another ₹30,00,000 for a major expansion programme and hence is considering the following three alternative methods of financing :
- (i) To issue 30,000 equity shares of ₹100 each.

(ii) To issue 30,000, 10% debentures of ₹100 each.

(iii) To issue, 30,000, 8% preference shares of ₹100 each.

The company's expected earnings before interest and tax will be ₹ 8,00,000/-. Assuming corporate tax rate to be 50%. determine the Earnings per share in each alternative and comment which alternative is best and why. 8

(f) Why is a reserve created ? How many types of reserves are there ? Explain. 2+6=8

(g) What is optimal capital structure ? Explain *any five* factors influencing the capital structure of a company. 3+5=8

(h) (i) State the inter-relationship between profit maximisation and wealth maximisation.

(ii) Write a note on price-earning ratio. 4+4=8