

**Second Year Examination of the
Three Year Degree Course, 2001**

(Faculty of Commerce)

BANKING AND FINANCIAL MANAGEMENT

Financial management

Time : 3 Hours

[Maximum Marks :100]

Attempt any **five** questions,
selecting at least **one** question from each unit,
All questions carry equal marks.

UNIT-I

1. Discuss in detail the main function of financial management. Why is financial management important for a business organisation ?

10+10

OR

What should be the basic objective of financial management? Explain giving reasons.

10+10

UNIT-II

2. Explain the meaning of under-capitalisation. Discuss the cause and remedies of under-capitalisation.

5+7+8

OR

The management of Minerva Company Ltd. is considering the purchase of new plant. Two plants X and Y each costing Rs. 5,00,000 (five lakhs) are available. The expected life of each plant is 5 years. The cash inflow after tax and before depreciation are expected as follows :

6+7+7

Cash Inflow

Year	Plant X	plant Y
1	RS.	RS.
2	40,000	1,20,000
3	1,20,000	1,60,000
4	1,60,000	2,00,000
5	2,40,000	1,20,000
6	1,60,000	1,60,000

Which proposal would be financially preferable according to following:

- (i) Pay Back Period Method
- (ii) Return on Investment Method
- (iii) Net Present Value Method at 10% Discount Rate.

UNIT-III

3.(A) A company wishes to issue 10,000 9% preference shares of Rs. 100 each. The other expenses of capital issue are underwriting 2% brokerage 1% on face value and printing expenses Rs. 10,000. Calculate cost of capital, if issue has been made : 10

- (i) at par value
- (ii) at a discount of 5%
- (iii) at a premium of 10%

What will be the effect on cost of capital, if 50% corporate tax is imposed on company's earning ?

(B) Raja Ltd. wishes to issue 1000 debentures (10%) of Rs. 100 each for which the company will be required to incur following expenses: 10

Underwriting Commission 2%

Brokerage 0.5%

Printing and other expenses Rs. 15,000

Calculate the cost of debt capital (before tax as well as after tax) assuming the debt is issued :

- (i) at par value
 - (ii) at 10% discount
 - (iii) at 10% premium
- The tax rate is 50%

OR

Discuss various types of leverages ? What is the significance of operating and financial leverages to a business concern ? How are they calculated. 8+6+6

UNIT-IV

4. What is working capital? On the formation of a new business, what consideration are taken into account in estimating the amount of working capital required? 8+12

OR

Clearly explain the meaning of Inventory Control and discuss its objectives. Explain different techniques used for inventory control. 5+7+8

UNIT-V

5. Explain the meaning of the term "Dividend Policy" and critically examine the essentials of a Stable Dividend Policy. 5+15

OR

What are the important reasons for Mergers and Acquisitions? 20