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Q. P. Code :- 58266

SYBA – Semester III - Commerce Paper II- Financial Management

Note: 1. All questions are compulsory.
2. Figures to the right indicate full marks.

Q1. Answer any two of the following. 20

a. Meaning: 2 marks, Functions: 8 marks

Financial management deals with planning, raising, utilising and controlling the funds of a business enterprise.

Executive functions: estimating capital, co-ordinating financial operations, financial control, replanning, investment decision, disposal of surplus, managing cash flow, new sources of finance, advising top management.

Routine functions: maintaining accounts, records, cash planning, cash flow management, credit management, safe custody.

b. Role: 10 marks

Financial management plays a useful role in bringing financial stability to an enterprise. The finance manager is responsible for the management of the funds of the enterprises. Following is the role of financial management – it deals with financial aspect, it is concerned with estimation of funds required for smooth conduct of business, collection and utilisation of funds, requires proper planning and control, it is objective oriented, it is related to other functional area, it is dynamic.

c. Objectives: 10 marks

The basic objective of financial management includes maintenance of liquid assets and maximisation of the profitability of the firm.
Objectives - ensuring fair return to shareholders of the company, building reserves for growth and expansion of business, ensuring high level of operational efficiency for effective utilisation of finance, to estimate capital requirement, fair rate of return, proper collection and utilisation of funds, co-ordination, enhance image, maintain adequate cash flow, survival, growth and financial stability, discipline, improve overall efficiency.

Q2. Answer any two of the following. 20

a. Meaning: 2 marks, essentials: 8 marks

Financial planning is the act of deciding in advance the financial activities that are necessary if the firm is to achieve its primary and long-term goals of wealth maximisation.

Simplicity, foresight, flexibility, optimum utilisation, provision for contingencies, liquidity, economy, safety, balanced capitalisation, objectivity.

b. Importance 10 marks

Proper financial planning has a vital bearing on the future success of a business unit, as defective financial planning may create new financial problems like overcapitalisation and undercapitalisation. Following is the importance of financial planning-Its plays positive role, provides stability, brings prosperity to business, built sound financial foundation, brings financial discipline, ensures orderly functioning, ensure precise estimates of current and forthcoming situation.

c. Scope: 4 marks, objectives: 6 marks

Scope- the scope of financing planning is wide and comprehensive, it covers the financial aspects of business such as capitalisation- it is the amount of capital needed for starting and running a proposed business activity in an orderly manner, capital structure- It is the pattern of securities, asset management policies- they are the financial policies to be introduced for proper utilisation of funds collected.

Objectives: to estimate precisely and accurately, to lay down sound foundation, means of raising funds, suggest rational ways of utilisation, to ensure success and stability.

Q3. Answer any two of the following. 20

a. Long term capital- it is that part of the total capital which is permanently required for purchasing fixed assets like land, building etc.

   Short term capital – it is that part of total capital which is required for meeting recurring expenses such as cost of raw material, water charges.

   Distinguish points: meaning, amount, sources, frequency of need, factors, capital appreciation and depreciation, liquidity, blocking of capital.

b. The capital structure of a firm should be sound, it should offer benefits to equity shareholders. Features of sound /balanced capital structure are as follows-Simplicity, economy, optimum use, provision for contingencies, clear objectives, long term view, proper balance, safety, retention of control, flexible, profitable, solvency, control.

c. The capital structure of a company is to be determined initially at the time of floating of the company. Capital structure decision is a continuous one and must be taken as and when the firm needs additional finances. The following factors determine the capital structure of a company: trading on equity, retaining control, attracting different type of investors, period and purpose, cost of financing, flexibility, nature and size of enterprise, market condition.

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Q4. Answer any two of the following. 20

a. Meaning: 2 marks, types: 8marks

Preference shares are those shares which carry a preference or priority over equity shares about payment of dividend and return of capital on winding up of the company. Types of preference shares-Cumulative and non-cumulative shares, redeemable and irredeemable, participating and non-participating, convertible and non-convertible.

b. Venture capital advantages: 6 marks, progress in India: 4 marks.
Venture capital plays a strategic role in financing small scale enterprises and high technology and risky ventures, such investments are made in hope of earning a high rate of return, following are the advantages -to Induce entry of technocrat's industry, funds to new entrepreneurs, economical, reduced risk factor, support business borrowings.
Progress of venture capital in India -Forms in India: equity participation, conventional loan, conditional loan, income notes
Examples: financial institution-venture capital, state financial institution-venture capital, banks-venture capital, private sector-venture capital.

c. Ploughing back is an ideal method of self-financing, it facilitates reinvestment of profits for the growth and expansion of the company. Following are the advantages of it – it acts as shock absorber, it avoids dependence, ensure stable dividend policy, economical, safe and secured, raises market value of shares, raises earning capacity, raises collateral value, raises rate of capital formation, facilitates industrial growth, facilitates economic growth.

Q5. A. Define the following terms. (any five) 10

a. Debentures- it represents borrowed capital and debenture holders are the creditors of the company. It is a creditorship security.
b. Equity shares- equity shares or ordinary shares do not carry preferential rights as regards dividend and repayment of capital.
c. Right issue- In right issue, new shares are offered to the existing shareholders on pro-rata basis. It is different from bonus shares it is also called as privileged subscription.
d. IPO- Initial Public Offer is one popular method used for marketing equity shares. The shares offered to public in the beginning is called IPO, for this prospectus is issued and normal procedure is followed.
e. Borrowed capital- it means capital collected through debentures, bonds, bank loans and public deposits, the contributors are the creditors of the company, they get interest at fixed rate.
f. Financial institution- in India companies collect long term loans from financial institutions such as IFCI, ICICI, GIC,LIC etc. such loans are taken in addition to issue of shares, debentures, for the execution of expansion and development programmes of the companies.

g. Public deposit- it is also called as loans from investors, it constitutes important, popular and extensively used source of short term or working capital by business enterprise

Q5. B. State whether the following statements are True or False 05

True, False, True, True, True

Q5. C. Fill in the blanks by choosing appropriate options given below 05

Promoters, Costly, Financial Management, USA, Difficult and Costly

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