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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.

10x2

a. Meaning 5-6 lines- 2 marks, functions- 8 marks

Financial management is the activity concerned with the planning, raising and administration of funds used in the business.

Executive functions: estimating total capital requirement, co-ordinating financial operations with other operations, to ensure financial control, replanning, to utilise funds in rational manner, disposal of surplus income, managing cash flow, deciding new sources of finance.

Routine functions: maintaining accounts, record keeping, financial reporting, preparation of statutory and non-statutory financial statement, cash planning, credit management, safe custody of financial securities, financial documents.

b. Objectives.

Objectives: To estimate capital requirement, proper utilisation of capital, fair rate of return to the suppliers of capital, to create good image, to maintain adequate cash flow, to ensure survival, growth and financial stability, to maintain financial discipline.

c. Importance

Its facilitates estimation of total capital requirement, co-ordinates financial operations with other functional operation, facilitates financial control, facilitates replanning, facilitates proper utilisation of capital collected, disposal of income, managing cash flow, facilities deciding new sources of finance, advising top management, maintaining accounts, record keeping, financial reporting, preparation of statutory and non-statutory financial statement, cash planning, credit management, safe custody of financial securities, financial documents.

Q2. Answer any two of the following.

10x2

a. Need of financial planning.

Financial planning is needed to ensure the availability of enough cash for meeting expenses, emergencies and contingencies. It leads to elimination of waste of operation, it ensures continuous and orderly working of a business unit with high profitability and makes adequate provision for replacement of assets when necessary following is need for financial planning - Its plays positive role, ensure stability, ensure prosperity to business, makes sound financial foundation, ensure financial discipline, ensures orderly functioning, ensure precise estimates of current and forthcoming situation

b. Essential of sound financial plan

A good financial plan should be simple, flexible, should make optimum utilisation of funds, to make provision for contingencies, to ensure liquidity, it should be economical, it should provide safety to investors, it needs objectivity.

c. Scope and objectives of financial planning

Capitalisation - to decide the amount of capital needed for starting and running the proposed business in orderly manner.

Capital structure - to establish a pattern of securities to be issued for collecting the required capital.

Asset management policies - to decide the financial policies to be introduced for proper utilisation of funds collected.

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

Q3. Answer any two of the following.

10x2

a. Meaning – 2 marks, balanced capital structure- 8 marks

Every company is free to design its own capital structure. However, the proportion of different types of securities should be fair and favourable to the company. It should offer benefits to equity shareholders. Balanced capital structure facilitates trading on equity and this gives higher dividend to equity shareholders.

Features of balanced capital structure-Simplicity, economy, optimum use, provision for contingencies, clear objectives, long term view, proper balance, safety, retention of control, flexible, profitable, solvency, control.

b. Distinguish between owned and borrowed capital

Meaning- Owned capital means capital collected through the issue of shares- equity and preference, while borrowed capital means capital collected through debentures, bonds, loans and public deposits, status – co-owner, creditors, income- dividend, interest, repayment- repayable on liquidation, repayable on maturity, volume of capital- large, lesser, risk involved- more risky, not risky.

- c. Meaning – 2 marks, features – 8 marks

Short term capital means capital required for meeting regular or day to day expenses of business unit for eg. Purchase of raw material, expenses like electricity, water charges etc.

Features: it is used for meeting regular needs, it is needed for short period, the amount depends upon various factors, it is fluctuating in nature, it is easily convertible, it ensures orderly functioning, it can be collected from different sources, it is an integral aspect of capital structure.

- Q4. Answer any two of the following.

10x2

- a. Meaning – 2 marks, features – 8 marks

Equity shares or ordinary shares are those shares which do not enjoy any special right in respect of payment of dividend and repayment of capital. It is also known as owned capital or risk capital. The owners of equity shares are the real risk bearers about return on their investment.

Features-it provides long term capital, equity shareholder gets the co-ownership of the company, benefits of bonus shares, benefits of right issue, free transfer facility, risk involved, fluctuating dividend, they enjoy voting rights, irredeemable, capital appreciation and protection against inflation.

- b. IPO procedure- 10 marks

The shares offered to public in the beginning is called Initial public offer.

Procedure – decision by BOD , appointment of underwriter, banker, appointment of registrars, broker, filing prospectus with registrar of companies, printing of prospectus, application for listing with the stock exchange, publicity, collection of shares application, scrutiny of application, allotment of shares.

- c. 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.

Q5. A. define the following terms. (any five)

5x2

- a. Public deposits or loans from investors constitute an important, popular and extensively used source of short term or working capital by business enterprises.
- b. Bonus share are similar to fully paid-up equity shares in all respects but are given as bonus to the existing equity shareholders.
- 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. Long term capital: it is that part of the total capital which is permanently required for purchasing fixed assets like land, machinery and building.
- e. Ploughing back of capital: it is also called as reinvestment of retained earnings or internal financing or self-financing. A part of net profit earned is retained every year in the form of reserved fund and used as capital after 5-6 years when the amount collected is substantial.
- f. Venture capital: financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and reward of the enterprise.
- g. Capitalisation: determining the amount of capital needed by a business concern to carry out its operations smoothly.

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

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True, False, False, True, True

Q5. C. Fill in the blanks with appropriate words

05

Substantial, Difficult and costly, Financial Institution, Full, Fixed Capital
