23AFU519N

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2026
(Fifth Semester)

Branch – **COMMERCE (ACCOUNTING & FINANCE)**

FINANCIAL MANAGEMENT

Time: Three Hours
Maximum: 75 Marks

SECTION-A (10 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** marks (10 × 1 = 10)

Module No.	Question No.	Question	K Level	CO
1	1	The main concern of financial management is : a) Cash flow management b) Profit planning c) Efficient use of capital d) All of the above	K1	CO1
	2	Which of the following is a functional area of financial management? a) Production management b) Investment management c) Personnel management d) Operations management	K2	CO1
2	3	The process of finding present value from future value is called: a) Compounding b) Discounting c) Accumulating d) Annualizing	K1	CO2
	4	Which of the following is a non-discounting technique? a) Net Present Value (NPV) b) Internal Rate of Return (IRR) c) Payback Period d) Profitability Index (PI)	K2	CO2
3	5	Which of the following is cost of debt is calculated using_______? a) After-tax interest rate b) Before-tax interest rate c) Average cost of funds d) Dividend yield	K1	CO3
	6	Outline the cost of retained earnings is generally_________ a) Zero b) Equal to cost of equity c) Less than cost of equity d) More than cost of equity	K2	CO3
4	7	Which of the following is financial leverage measures: a) Sensitivity of EBIT to sales b) Sensitivity of EPS to EBIT c) Sensitivity of EPS to sales d) Sensitivity of EBIT to fixed costs	K1	CO4
	8	Outline the main determinant of capital structure is: a) Business risk b) Tax advantage of debt c) Control considerations d) All of the above	K2	CO4
5	9	Which of the following is not a determinant of working capital? a) Nature of business b) Production cycle c) Market share d) Credit policy	K1	CO5
	10	Which of the following methods helps in controlling inventory? a) FIFO b) LIFO c) JIT (Just-in-Time) d) All of the above	K2	CO5

SECTION - B (35 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** Marks (5 × 7 = 35)

<table>
<tr><th>Module No.</th><th>Question No.</th><th>Question</th><th>K Level</th><th>CO</th></tr>
<tr><td rowspan="3">1</td><td>11.a.</td><td>Explain the scope of financial management.</td><td rowspan="3">K2</td><td rowspan="3">CO1</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>11.b.</td><td>Illustrate the financial management process.</td></tr>
<tr><td rowspan="2"></td><td>12.a.</td><td>Calculate the present value of future cash flows, assuming a discount rate of 10%.
<table>
<tr><th>Year</th><th>Cash Flows</th></tr>
<tr><td>1</td><td>1,000</td></tr>
<tr><td>2</td><td>2,000</td></tr>
<tr><td>3</td><td>3,000</td></tr>
<tr><td>4</td><td>4,000</td></tr>
</table></td><td rowspan="3">K3</td><td rowspan="3">CO2</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td></td><td>12.b.</td><td>A project costs Rs.10,00,000 and yield an annual cash inflow of Rs.2,00,000 for 10 years. Calculate its Pay-back period.</td></tr>
</table>

Cont…

3	13.a.	A company issues a new 10% debenture of Rs.1,000 face value to be redeemed after 20 years. The debenture is expected to be sold at par. However it will involve floatation costs of 4%. The debenture will carry 10% annual interest rate. The company's tax rate is 55%. What would the cost of debt be?	K3	CO3
		(OR)		
	13.b.	A company expects a dividend of Re.1.00 per share next year and is expected to grow at 6% per year perpetually. Determine the cost of equity capital, assuming the market price per share is Rs.25.		
4	14.a.	Calculate the operating, financial and combined leverages form the following data: Sales 1,00,000 units at Rs.2 per unit Variable cost per unit @ Re.0.70 Fixed cost Rs.1,00,000	K4	CO4
		(OR)		
	14.b.	Analyze the concept of capital structure.		
5	15.a.	From the following information, calculate the optimum cash balance. Annual cash requirement Rs.1,00,000 Fixed conversion cost per transaction Rs.100. Opportunity cost of holding cash 5% p.a.	K4	CO5
		(OR)		
	15.b.	From the following particulars, calculate the economic order quantity. Annual requirement 1600 units. Cost of material per unit Rs.40. Cost of placing and receiving one order Rs.50 Annual carrying cost of inventory is 10% of inventory value.		

SECTION -C (30 Marks)

Answer **ANY THREE** questions

ALL questions carry **EQUAL** Marks (3 × 10 = 30)

<table>
<tr><th>Module No.</th><th>Question No.</th><th>Question</th><th>K Level</th><th>CO</th></tr>
<tr><td>1</td><td>16</td><td>Analyze the organisation of financial functions.</td><td>K4</td><td>CO1</td></tr>
<tr><td>2</td><td>17</td><td>The projects M and N which are mutually exclusive are being under consideration. Both of them require an investment of Rs.1,00,000 each. The net cash inflow are estimated as under:
<table>
<tr><th>Year</th><th>M Rs.</th><th>N Rs.</th></tr>
<tr><td>1</td><td>10,000</td><td>30,000</td></tr>
<tr><td>2</td><td>40,000</td><td>50,000</td></tr>
<tr><td>3</td><td>30,000</td><td>80,000</td></tr>
<tr><td>4</td><td>60,000</td><td>40,000</td></tr>
<tr><td>5</td><td>90,000</td><td>60,000</td></tr>
</table>
The company's targeted rate of return on investment is 12%. You are required to assess the projects on the basis of their present values, using (i) NPV method and (ii) Profitability index method.
Present value of Re.1 at 12% interest for five years are given below:
<table>
<tr><th>1st Year</th><th>2nd Year</th><th>3rd Year</th><th>4th Year</th><th>5th Year</th></tr>
<tr><td>0.893</td><td>0.797</td><td>0.712</td><td>0.636</td><td>0.567</td></tr>
</table>
</td><td>K4</td><td>CO2</td></tr>
<tr><td>3</td><td>18</td><td>Tata company is earning a Net profit of Rs.25,00,000 per annum. The shareholders' expected Rate of Return is 15%. The marginal Tax Rate is 30%. Investment of the retained earnings in new shares involves brokerage cost of 3%. Assuming that the entire earnings are distributed to the shareholders, determine the Cost of Retained Earnings.</td><td>K5</td><td>CO3</td></tr>
<tr><td>4</td><td>19</td><td>There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs.1,00,000 5% Debentures in its financing. Both the firms have earnings before interest and tax of Rs.25,000 and the equity capitalisation rate is 10%. Assuming the corporation tax of 50%. Calculate the value of the firm using M & M approach.</td><td>K5</td><td>CO4</td></tr>
<tr><td>5</td><td>20</td><td>Analyze the nature of working capital.</td><td>K6</td><td>CO5</td></tr>
</table>

Z-Z-Z END