23COU521AN

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2026
(Fifth Semester)

Branch – **COMMERCE**

MAJOR ELECTIVE COURSE – I: FINANCIAL MANAGEMNT

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	Financial management helps in a. Long term planning b. Profit planning c. Estimation of total fund requirements and ensuring profitable deployment of funds in fixed assets and working capital d. Short term planning	K1	CO1
	2	Investment decisions deal with a. Investment in capital assets b. Investment in current assets c. Investment in fixed assets d. Investment in both capital assets and current assets	K2	CO1
2	3	In the case of multiple compounding, the effective interest rate will be a. Equal to the nominal interest rate b. Higher than the nominal interest rate c. Lower than the nominal interest rate d. All the above	K1	CO2
	4	Average annual profits/ Average Investment * 100 a.ARR b.IRR c. NPVI d.NPV	K2	CO2
3	5	Cost of capital refers to a. The cost funds raised by the company b. Minimum expected return c. Return on investment d. Maximum expected return	K1	CO3
	6	Cost of capital is used a discount rate in evaluating capital expenditure proposals under a. Average Rate of return method b. Pay back method c. Net present value method d. Internal rate of return	K2	CO3
4	7	The proportion of debt and equity is called a. Capital structure b. Financial structure c. Capitalization d. Optimum capital structure	K1	CO4
	8	Equity shareholders assume a. High degree of risk b. Low degree of risk c. No risk d. None of the above	K2	CO4
5	9	Gross working capital means a. Current liabilities b. Total current assets c. The excess of current assets over current liabilities d. Difference between CA- CL	K1	CO5
	10	Short term working capital is provided by a. Financial Institutions b. Commercial banks c. Sale of shares and debentures d. Commercial papers	K2	CO5

Cont…

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>Discuss the scope of financial management.</td><td rowspan="3">K3</td><td rowspan="3">CO1</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>11.b.</td><td>Summarize the significance of finance function.</td></tr>
<tr><td rowspan="3">2</td><td>12.a.</td><td>Initial outlay Rs.50,000
Life of the asset 5 years
Estimated cash flow Rs.12,500
Calculate Internal Rate of Return.</td><td rowspan="3">K3</td><td rowspan="3">CO2</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>12.b.</td><td>Calculate the average rate of return for the project
Investments Rs.20,000
Expected Life 4 years
Project Net Income (after interest, depreciation and taxes)
1 year Rs.2,000
2 Year Rs.1,500
3 Year Rs.1,500
4 Year Rs.1,000
5 Year Nil
If the required rate of return is 12%, which project should be undertaken?</td></tr>
<tr><td rowspan="3">3</td><td>13.a.</td><td>The market price of an equity share of G ltd. Is Rs.80. The dividend expected a year hence is Rs.1.60 per share. The shareholders anticipate a growth of 7% in dividends. Calculate the cost of equity capital.</td><td rowspan="3">K3</td><td rowspan="3">CO3</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>13.b.</td><td>The capital structure and after tax cost of different sources of funds are given below:
<table>
<tr><th>Sources of Funds</th><th>Amount Rs.</th><th>Proportion to total</th><th>After tax cost %</th></tr>
<tr><td>Equity share capital</td><td>7,20,000</td><td>.30</td><td>15</td></tr>
<tr><td>Retained earnings</td><td>6,00,000</td><td>.25</td><td>14</td></tr>
<tr><td>Preference share capital</td><td>4,80,000</td><td>.20</td><td>10</td></tr>
<tr><td>Debentures</td><td>6,00,000</td><td>.25</td><td>8</td></tr>
</table>
You are required to compute the weighted average cost of capital.</td></tr>
<tr><td rowspan="3">4</td><td>14.a.</td><td>Calculate operating and financial leverages from the following particulars.
Units sold 5,000
Selling price p.u. Rs.30
Variable cost per unit Rs.20
EBIT Rs.30,000
10% Public debt Rs.1,00,000</td><td rowspan="3">K4</td><td rowspan="3">CO4</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>14.b.</td><td>Blue Sky Ltd has an EBIT Rs.2,00,000. The cost of debt is 10% and the outstanding debt is Rs.9,00,000. The overall capitalization rate (Ko) is 12.5%.
Calculate the total value of the firm (V) and equity capitalization rate. (Ke)</td></tr>
</table>

<table>
<tr><td rowspan="3">5</td><td>15.a.</td><td>From the following Balance Sheet compute
a. Gross working capital
b. Net working capital
<table>
<tr><th colspan="4">Balance sheet as on 31.12.2023</th></tr>
<tr><th>Liabilities</th><th>Amount</th><th>Assets</th><th>Amount</th></tr>
<tr><td>Share capital</td><td>6,00,000</td><td>Fixed Assets:</td><td></td></tr>
<tr><td>Reserves</td><td>1,00,000</td><td>Land & Building</td><td>3,00,000</td></tr>
<tr><td>Debentures</td><td>3,00,000</td><td>Plant & Machinery</td><td>4,00,000</td></tr>
<tr><td>Current Liabilities:</td><td></td><td>Current Assets:</td><td></td></tr>
<tr><td>Bank loan</td><td>1,00,000</td><td>Cash</td><td>60,000</td></tr>
<tr><td>Creditors</td><td>60,000</td><td>Investments</td><td>1,00,000</td></tr>
<tr><td>Bills payable</td><td>40,000</td><td>Inventory</td><td>2,00,000</td></tr>
<tr><td></td><td>12,00,000</td><td></td><td>12,00,000</td></tr>
</table>
</td><td rowspan="3">K3</td><td rowspan="3">CO5</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>15.b.</td><td>A firm's monthly cash requirement is Rs.1,80,000. Every month cash is procured by selling marketable securities . The fixed cost per transaction is rs.100. the firm gets annual interest at 12% on its marketable securities. You are required to use the EOQ model and find out
a. Optimal cash balance
b. Average cash balance
c. No.of times marketable securities</td></tr>
</table>

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>Explain the relationship between the finance function and other function.</td><td>K6</td><td>CO1</td></tr>
<tr><td>2</td><td>17</td><td>A Limited Company is considering investing in a project requiring a capital outlay of Rs.2,00,000. Forecast of annual income after depreciation but before tax is as follows:
<table>
<tr><th>Year</th><th>Amount Rs.</th></tr>
<tr><td>1</td><td>1,00,000</td></tr>
<tr><td>2</td><td>1,00,000</td></tr>
<tr><td>3</td><td>80,000</td></tr>
<tr><td>4</td><td>80,000</td></tr>
<tr><td>5</td><td>40,000</td></tr>
</table>
Depreciation may be taken as 20% on original cost and taxation at 50% of net income. Calculate
a. Pay back period
b. Rate of return on original investment
c. Rate of return on average investment
d. Discounted cash flow method taking cost of capital at 10%
e. Excess present value index.</td><td>K4</td><td>CO2</td></tr>
<tr><td>3</td><td>18</td><td>Alpha Ltd, issued 10% redeemable preference shares (RPS) of Rs.100 each, redeemable after 10 years. The floatation costs were 5% of the nominal value. Compute the effective cost to the company if the issue is made at
a.at par b. a premium of 5% c. a discount of 5%</td><td>K4</td><td>CO3</td></tr>
</table>

4	19	Income statement of P.N.R.Ltd. is given below: <table><tr><td></td><td>Amount Rs.</td></tr><tr><td>Sales</td><td>10,50,000</td></tr><tr><td>Variable cost</td><td>7,67,000</td></tr><tr><td>Fixed cost</td><td>75,000</td></tr><tr><td>EBIT</td><td>2,08,000</td></tr><tr><td>Interest</td><td>1,10,000</td></tr><tr><td>Tax</td><td>29,400</td></tr><tr><td>Net income</td><td>68,600</td></tr><tr><td>No. of equity shares</td><td>4,000</td></tr></table>Calculate a. Operating leverage b. Financial leverage c. Combined leverage d. Earnings Per share	K5	CO4
5	20	Peerless Ltd. Is engaged in customer retailing . you are required to forecast their working capital requirement from the following information. Projected annual sales Rs.6,50,000 % of N.P. to cost of sales 25% Average credit allowed to debtors 10 weeks Average credit allowed by creditors 4 weeks Average stock carrying (in terms of sales requirement) 8 weeks Add 20% to allow for contingencies.	K6	CO5

Z-Z-Z END