23CMA625N

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BCom DEGREE EXAMINATION MAY 2026
(Sixth Semester)

Branch – **COMMERCE (COST & MANAGEMENT ACCOUNTING)**

FUNDAMENTALS OF 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	Identify the primary objective of the financial management. (i) Profit maximization (ii) Wealth maximization (iii) Cost minimization (iv) Business reengineering	K1	CO1
	2	Which of the following is NOT a primary function of financial management? (i) Investment decision (ii) Financing decision (iii) Dividend decision (iv) Personnel decision	K2	CO1
2	3	Mention the Duration of medium term financial resources. (i) Below 1 year (ii) 3 to 5 years (iii) 1 to 3 years (iv) Above 5 years	K1	CO2
	4	Which of the following cost of capital is generally considered as high? (i) Cost of equity (ii) Cost of debt (iii) Cost of bonds (iv) Cost of preference shares	K2	CO2
3	5	Mention under profitability index (PI), the project shall be accepted if ________. (i) PI < 1 (ii) PI > 1 (iii) PI = 1 (iv) PI = 0	K1	CO3
	6	The capital budgeting involves in decisions pertaining to (i) Long term assets (ii) Working capital (iii) Dividend distribution (iv) Cost allocation	K2	CO3
4	7	Which of the following represent The value of gross working capital ? (i) Total current liabilities (ii) Long term liabilities (iii) Total fixed assets (iv) Total current assets	K1	CO4
	8	Average stock is calculated as half of the (i) Opening stock (ii) Closing stock (iii) Opening stock + Closing stock (iv) Opening stock - Closing stock	K2	CO4
5	9	Which of the following is another name of Trading on equity ? (i) Financial leverage (ii) Combined leverage (iii) Operating leverage (iv) Working capital leverage	K1	CO5
	10	Which of the following represent the portion of profit which is distributed to the shareholders ? (i) Dividend growth ratio (ii) Dividend yield ratio (iii) Dividend payout ratio (iv) Dividend markup ratio	K2	CO5

SECTION - B (35 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** Marks (5 × 7 = 35)

Module No.	Question No.	Question	K Level	CO
1	11.a.	Show the functional areas under the scope of financial management.	K1	CO1
		(OR)		
	11.b.	List the criticisms of profit maximization objective of financial management.		
2	12.a.	Identify the salient features of crowd funding.	K3	CO2
		(OR)		
	12.b.	Compute the weighted average cost of capital (WACC) from the following: (i) Debt: ₹15,00,000 (Cost of capital after tax: 5%) (ii) Preference shares: ₹12,00,000 (Cost of capital after tax: 10%) (iii) Equity shares: ₹18,00,000 (Cost of capital after tax: 12%) (iv) Retained earnings: ₹15,00,000 (Cost of capital after tax: 11%)		

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3	13.a.	A project costs ₹5,00,000 and yields annually a profit of ₹80,000 after depreciation before tax at 50%. The rate of depreciation is 12%. Calculate payback period. What would be the change in the payback period if the rate of depreciation is 10%?	K3	CO3
		(OR)		
	13.b.	Initial cash outlay of a project is ₹50,000 and it generates cash inflows of ₹20,000, ₹15,000, ₹25,000 and ₹10,000 in 4 years. Using profitability index method, Appraise the profitability of the project assuming 10% rate of discount. (PV factors for the years 1,2, 3 and 4 are 0.909, 0.826, 0.751 and 0.683.		
4	14.a.	Calculate Economic Order Quantity (EOQ): (i) Annual usage: 10,000 units (ii) Cost of placing and receiving an order: ₹50 (iii) Cost of material: ₹25/unit (iv) Annual carrying cost: 10% of inventory value	K3	CO4
		(OR)		
	14.b.	Illustrate the main motives to hold cash in the business.		
5	15.a.	Calculate the composite leverage. A company has sales of ₹5 Lakhs, variable cost of ₹3 Lakhs, fixed cost of ₹1 Lakh and long-term loans of ₹4 Lakhs at 10% interest per annum.	K4	CO5
		(OR)		
	15.b.	A company is expected to pay a dividend of ₹6 per share next year. Dividends are expected to grow perpetually at 9%. What is the value of share if the required rate of return is 15% and 12%.		

SECTION -C (30 Marks)

Answer **ANY THREE** questions

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

Module No.	Question No.	Question	K Level	CO
1	16	List the functions of financial management.	K1	CO1
2	17	Explain the various sources of finance.	K3	CO2
3	18	Calculate Net Present Value (NPV) of the project and advise the company. X limited considers an investment in a project that costs ₹2,00,000. The project has an expected life of 5 years and zero salvage value. Company uses straight-line method of depreciation and it is in 40% tax bracket. The estimated EBIT from the projects are ₹70,000, ₹80,000, ₹1,20,000, ₹90,000 and ₹60,000 for the years 1, 2, 3, 4 and 5 years respectively. PV factors for the 5 years @ 10% are: 0.909, 0.826, 0.751, 0.683 and 0.621.	K3	CO3
4	19	Prepare a statement showing the working capital required to finance the level of activity of 18,000 units per year from the following information (i) Raw material costs ₹12 per unit. (ii) Direct labour costs ₹3 per unit. (iii) Overheads cost ₹9 per unit. (iv) Total cost amounts to ₹24 per unit. (v) Profit amounts to ₹6 per unit. (vi) Selling price is ₹30 per unit. Additional Information: a) Raw material is in stock on an average for 2 months. b) Materials are in process on an average for half-a- month. c) Finished goods are in stock on an average for two months. d) Credit allowed by creditors is two months in respect of raw materials supplied. e) Credit allowed to debtors is three months. f) Lag in payment of wages is half month. Cash on hand and at bank is expected to be ₹7,000. You are informed that all activities are evenly spread out during the year.	K3	CO4
5	20	The following information is available in respect of a firm: a) Capitalization Rate = 10% b) Earning per share = ₹50 c) Assumed rate of return on investment: i) 12% ii) 8% iii) 10% Show the effect of dividend policy on market price of shares applying Walter's model when dividend pay out ratio is i) 0% ii) 40% iii) 100%	K4	CO5

Z-Z-Z END