

# St. Claret College

Autonomous, Bengaluru

UG END SEMESTER EXAMINATION-NOV 2025  
B.COM TOURISM AND TRAVEL MANAGEMENT III SEMESTER  
BCT 3225: FINANCIAL MANAGEMENT



TIME: 3 hours.

13

MAX. MARKS: 80

This paper contains FIVE printed pages and FOUR parts

### Instructions:

1. Verify and ensure that the question paper is completely printed.
2. Any discrepancies or questions about the exam paper must be reported to the COE within 1 hour after the examination.
3. Students must check the course title and course code before answering the questions.

### PART-A

Answer ALL questions. Each answer carries ONE mark.

[1 x 10 = 10]

1. What is the primary goal of financial management?  
a) Profit maximization  
b) Sales maximization  
c) Wealth maximization  
d) Market share maximization
2. The concept of the time value of money implies that:  
a) Money has no value over time  
b) Value of money is constant  
c) A rupee today is worth more than a rupee tomorrow  
d) Money loses value only in a recession
3. Cost of capital represents:  
a) Cost of goods sold  
b) Minimum rate of return expected by investors  
c) Cost of raw materials  
d) Cost of labour
4. CAPM model calculates cost of equity as:  
a)  $K_e = R_f + \beta (R_m - R_f)$   
b)  $K_e = D_1/P_0 + g$   
c)  $K_e = \text{EPS}/\text{Price}$   
d)  $K_e = \text{Profit}/\text{Equity}$
5. Optimum capital structure is that which:  
a) Minimizes cost of capital and maximizes firm value  
b) Maximizes debt  
c) Minimizes equity  
d) Has equal debt and equity
6. EBIT-EPS analysis helps in:  
a) Choosing the best financing mix  
b) Determining production level  
c) Dividend policy  
d) None of these
7. Capital budgeting is concerned with:  
a) Short-term asset management  
b) Long-term investments  
c) Profit allocation  
d) Dividend distribution
8. Payback period method measures:  
a) Time required to recover investment  
b) Profitability index  
c) Net present value  
d) Average return

9. Walter's Model is related to:
- a) Dividend policy  
b) Cost of debt  
c) NPV analysis  
d) Cost of equity
10. Full form of NPV-
- a) Net profit value  
b) Net present value  
c) Nominal profit variation  
d) Non-performing variable

**PART-B**

**Answer any THREE questions. Each answer carries EIGHT marks.**

**[3x8=24]**

11. a) Mr. Rony invests ₹ 10,000 in a bank @ 10% p.a for 5 years. Calculate the maturity value if interest is compounded annually.  
Will he get more if interest is compounded half yearly and compounded quarterly?
- b) Determine the future value at the end of 5 years of the following series of payment at 8% rate of interest:
- At the end of 1st year: ₹2,000
  - At the end of 2nd year: ₹3,000
  - At the end of 3rd year: ₹4,000
  - At the end of 4th year: ₹5,000
  - At the end of 5th year: ₹6,000
12. A firm has 2 investment opportunities each costing ₹1,00,000 and each having the expected profits as shown below:

Year	Project A	Project B
1	40,000	40,000
2	50,000	20,000
3	10,000	50,000
4	30,000	60,000

After giving due consideration to risk factor in each project, the management has decided that: Project A should be evaluated @10% cost of capital and Project B a risky project with 15%

Compare the NPV if: Both the projects are independent as well as mutually exclusive.

13. The earnings per share of company are ₹8 and the rate of capitalisation applicable to the company is 10%. The company has before it an option of adopting a payout ratio of 25% or 50% or 75%. Using Walter's formula of dividend payout, compute the market value of the company's share if the productivity of retained earnings is (i) 15%, (ii) 10% and (iii) 5%.

14. Aroshi Company Ltd has a share capital of ₹1,00,000 divided into equity shares of ₹10 each. It has major expansion programme requiring an investment of another ₹50,000. Assume tax liability is 30%. The management is considering the following alternatives for raising this amount:

Issue of 5,000 Equity shares of ₹10 each

Issue of 5,000 12% preference shares of ₹10 each

Issue of 10% Debentures of ₹50,000.

The company's present EBIT is ₹30,000 p.a. You are required to calculate the effect of each of the above modes of financing on the earnings per share (EPS).

15. What is Financial Management? Explain the functions of Financial management.

### PART-C

**Answer any THREE questions. Each answer carries TWELVE marks. [3x12=36]**

16. a) Mr. X deposits ₹10,000 at the end of every year for 4 years and the deposit earns a compound interest at 10% per annum. Determine how much money he will have at the end of 4 years?

b) Mr. A deposits ₹5,000 at the end of every year and the deposit earns compound interest at 8% per annum. Determine how much he will have at the end of 5 years? (3+3 marks)

c) Mr. B deposits ₹10,000 on 1st January 2025 at 10% rate of interest. How many years will it take to double this amount? Work out this problem by using Rule of 72 and Rule of 69. (6 marks)

17. What is Capital Budgeting? Explain various techniques of capital budgeting.

18. The Diamond Co. Ltd is considering the purchase of a new machine. Two alternative machines have been suggested, each costing ₹ 4,00,000. Earnings after taxation before depreciation are expected to be as follows:

Year	Machine A	Machine B
1	40,000	1,20,000
2	80,000	1,60,000
3	1,60,000	2,00,000
4	2,00,000	1,20,000
5	6,00,000	80,000

The company has a target of return on capital of 10%, Compute the Payback period and NPV for both the machines, state which machine is to be selected.

19. The following information is available in respect of the rate of return on investment (r), the cost of capital (k) and earning per share (E) of ABC Ltd.

Rate of return on investment (r) = (i) 15%; (ii) 12%; and (iii) 10%

Cost of capital = (k) 12%, Earning per share (E) = ₹10

Determine the value of its shares using Gordon's Model assuming the following:

	D/p ratio (1-b)	Retention ratio(b)
(a)	100	0
(b)	80	20
(c)	40	60

20. A Ltd., capitalized with ₹10,00,000 divided into 1,00,000 Equity Shares of ₹10 each. The management desires to raise another ₹10,00,000 to finance a major expansion programme.

There are four possible financing plans:

1. All Equity Shares
2. ₹5,00,000 in Equity Shares and ₹5,00,000 in Debentures carrying 10% interest
3. All Debentures carrying 8% interest
4. ₹5,00,000 in Equity Shares and ₹5,00,000 in Preference Shares carrying 10% dividend

The existing EBIT amounts to ₹2,00,000 p.a.

You are required to calculate - Earnings per Equity Share under each of the above four financial plans. Assuming corporate tax rate of 50%.

#### PART-D

Answer the question. Answer carries TEN marks.

[1x10 = 10]

21. ABC Ltd. is a medium-sized manufacturing firm engaged in the production of consumer goods. The management of the company wants to evaluate how changes in its cost and financing structure affect profitability. The financial manager is particularly interested in understanding the firm's operating, financial, and combined leverages to assess the level of business and financial risk faced by the company.

Particulars	Amount (₹)
Sales Revenue	10,00,000
Variable Cost	7,00,000
Fixed Cost	2,00,000

Total Debt	5,00,000
Interest Rate on Debt	10%

The company has financed part of its operations through loan carrying an interest rate of 10% p.a.

Based on the above case study answer the following:

**a)** Explain the concept of **leverages** and describe their types — operating leverage, financial leverage, and combined leverage.

**b)** Using the financial data of ABC Ltd., calculate the following: (5+5marks)

1. Operating Leverage
2. Financial Leverage
3. Combined Leverage