

St. Claret College

Roll No:

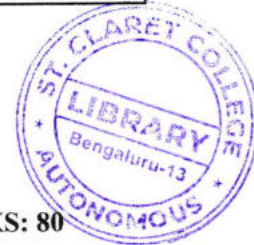
Date:

Autonomous, Bengaluru

UG END SEMESTER EXAMINATION-NOVEMBER 2025

B.COM III SEMESTER

BC 3225: FINANCIAL MANAGEMENT



TIME: 3 hours

MAX.MARKS: 80

This paper contains FOUR 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 the following MCQ. Each answer carries ONE marks.

[1x 10 = 10]

1. The main objective of Financial Management is to
 - a) Minimize profit
 - b) Maximize wealth of shareholders
 - c) Increase cost of capital
 - d) Maintain liquidity
2. The concept of Time Value of Money means
 - a) Money loses its value over time
 - b) Money today is worth more than the same amount in the future
 - c) Money today is worth less than future money
 - d) Money has no time-related value
3. The cost of equity can be calculated using
 - a) Payback method
 - b) Capital Asset Pricing Model (CAPM)
 - c) Trend analysis
 - d) Ratio analysis
4. Which of the following is not a component of cost of capital?
 - a) Cost of Debt
 - b) Cost of Equity
 - c) Cost of Raw Materials
 - d) Cost of Preference Shares
5. Capital Structure refers to
 - a) The composition of current assets
 - b) The mix of debt and equity in total capital
 - c) The financial budget of a firm
 - d) The dividend payout ratio
6. Operating Leverage arises due to the presence of
 - a) Variable cost
 - b) Fixed cost
 - c) Dividend
 - d) Tax
7. The method which considers the time value of money in capital budgeting is
 - a) Payback Period
 - b) Investment Rate of Return
 - c) Net Present Value (NPV)
 - d) Average Rate of Return

14. A company issues 20,000, 10% preference shares of Rs. 100 each. The cost of issues is Rs. 2 per share. Calculate Cost of Preference Share (K_p) if these shares are issues
- At par
 - At 10% premium
 - At 5% discount
15. Briefly explain the determinants of Dividend Policy.

PART-C

Answer any THREE questions. Each answer carries TWELVE marks.

[12 x 3 = 36]

16. a) "Financial Management is indispensable in any organization." Bring out its importance. (6 Marks)
- b) Calculate the present value of the following series of payments made at the end of each year for a period of 5 years at 8% interest rate.
- Cash flow at the end of 1st year: ₹2,000
 Cash flow at the end of 2nd year: ₹4,000
 Cash flow at the end of 3rd year: ₹6,000
 Cash flow at the end of 4th year: ₹8,000
 Cash flow at the end of 5th year: ₹10,000
- (6 Marks)
17. A Company has on its books the following amounts and specific costs of each type of capital.

Type of Capital	Book Value	Market Value	Specific Costs (%)
Debt	4,00,000	3,80,000	5
Preference Share	1,00,000	1,10,000	8
Equity	6,00,000	12,00,000	15
Retained Earnings	2,00,000		13

Determine the Weighted Average Cost of Capital using:

- Book Value Weights and
- Market Value Weights and

How are they differing? Can you think of a situation where the weighted average cost of capital? would be the same using either of the weights.

18. India Ltd. is 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 4 possible financial plans.
- All Equity Shares
 - All Debentures carrying 8% interest.
 - ₹ 5,00,000 in Equity Shares and ₹ 5,00,000 in Debentures carrying 10% interest.
 - ₹ 5,00,000 in Equity Shares and ₹ 5,00,000 in 10% Preference Shares.
- You are required to calculate EPS if the EBIT is: a) ₹ 4,80,000 and b) ₹ 6,00,000

19. Zenith Industries Ltd., are thinking of investing in a project costing ₹20 lakhs. The life of the project is five years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows:

Year	1	2	3	4	5
Estimated Cash before depreciation and tax (Rs. Lakhs)	4	6	8	8	10

You are required to determine the following:

- (i) Pay Back Period for the investment
- (ii) Average Rate of Return
- (iii) Net Present Value (Cost of Capital is 10%)

20. Given the following information about ABC Limited, show the effect of the dividend policy on the market price of its shares, using the Walter's model:

Equity capitalization rate (K_e) = 12%

Earnings per share (E) = ₹8

Assumed returns on investment (r) are as follows:

1. R = 15%
2. R = 10%

Show the effect of the different dividend policies on the share value of the firm, when dividend pay-out ratio is (a) 0%, (b) 25%, (c) 50%, (d) 75% and (e) 100%.

PART-D

Answer the following question. It Carries TEN marks

[10 x 1= 10]

21. A firm whose cost of capital is 10% is considering two projects X and Y, the details of which are:

Particulars	Project X	Project Y
Investment	2,00,000	2,00,000
Cash Inflow:		
1 st Year	40,000	90,000
2 nd year	60,000	80,000
3 rd Year	80,000	60,000
4 th Year	1,00,000	20,000
5 th Year	1,20,000	16,000

Compute Internal Rate of Return for the two projects separately — Project X by 20% and 29%, and Project Y by 9% and 15%.