Total No. of Questions: 20 **Enrollment No :** ____________________

Faculty of Management Studies

End Semester Examination May 2025

MS3CO06 / MS3CO30 Financial Management

Programme	:	BBA	**Branch/Specialisation**	:	-
Duration	:	3 hours	**Maximum Marks**	:	60

Note: *All questions are compulsory. Internal choices, if any, are indicated. Assume suitable data if necessary. Notations and symbols have their usual meaning.*

Section 1 (Answer all question(s))

	Question	Marks	CO	BL
Q1.	The finance manager is accountable for- ○ Earning capital assets of the company ○ Effective management of a fund ● Arrangement of financial resources ○ Proper utilisation of funds	1	1	1
Q2.	If an investment earns an annual interest rate of 9%, how long will it take for the investment to double in value using the Rule of 72? ○ 6 years ● 8 years ○ 10 years ○ 12 years	1	2	2
Q3.	Capital budgeting is the process- ○ Which help to make master budget of the organization ○ By which the firm decides how much capital to invest in business ● By which the firm decides which long-term investments to make ○ Undertaken to analyze how make available various finance to the business	1	1	1
Q4.	The decision to accept or reject a capital budgeting project depends on- ○ An analysis of the cash flows generated by the project ● Cost of capital that are invested in business / project. ○ Both (A) and (B) ○ Neither (A) nor (B)	1	1	1
Q5.	Cost of capital is equal to the required return rate on equity in case if investors are only_____. ○ Valuation Manager ● Common Stockholders ○ Asset Seller ○ Equity Dealer	1	1	1
Q6.	A company issues preference shares with a dividend rate of 10%. The face value of each preference share is ₹100, and it is issued at a 5% premium. The flotation cost is ₹2 per share. What is the cost of preference shares? ● 9.52% ○ 10.00% ○ 10.52% ○ 11.00%	1	2	2
Q7.	Capital Structure is an optimal mix of which one of the following options- ○ Sales and profits ● Debt and equity ○ Current assets and fixed assets ○ None of the above	1	2	2
Q8.	Which of the above factors helps to determine the capital structure of a firm? ○ Government policies ○ Degree of Control ○ Cost of capital ● All of the above	1	1	1
Q9.	______ working Capital refers to the firm's investment in current assets. ○ Zero ○ Net ● Gross ○ Distinctive	1	2	2

Q10. A positive working capital means that- 1 1 1

- ○ The company is able to pay-off its long-term liabilities.
- ○ The company is able to select profitable projects.
- ○ The company is unable to meet its short-term liabilities.
- ● The company is able to pay-off its short-term liabilities.

Section 2 (Answer all question(s))

Marks CO BL

Q11. Mr Ram invest ₹10,000 at the end of each year for 5 years in a savings account that offers an annual interest rate of 8%. What is the future value of this annuity? 2 3 2

Rubric	Marks
The future value of Mr. Ram's annuity after 5 years will be ₹58,662.50	2

Q12. (a) Compare and contrast the profit maximization and wealth maximization approaches. 8 2 2

Rubric	Marks
1 mark for each profit maximization and wealth maximization approaches. (1*8)	8

(OR)

(b) An apartment generates an annual rent of ₹25,000, which increases by 5% each year for the next 6 years. If an investor expects a 9% annual return, how much should they pay today to purchase this property?

Rubric	Marks
The investor should pay ₹129,937.50 today to purchase the property, given the expected rental growth and required return.	8

Section 3 (Answer all question(s))

Marks CO BL

Q13. A project requires an initial investment of ₹50,000 and generates cash inflows of ₹20,000 per year for the next 3 years. Calculate the payback period for this project. 2 2 2

Rubric	Marks
2.5 years	2

Q14. (a) Explain the various techniques used in capital budgeting. 8 2 2

(OR)

(b) Compute the Net Present Value for a project with net investment of Rs 1,00,000 and the following cashflows if the company's cost of capital is 10%. Net Cash flows for the year one is Rs 55,000 for the year two is Rs 80,000, and for the year three is Rs 15,000 (PVIF @10%).

Rubric	Marks
NPV= ₹27,382 (For correct Answer 8 Marks)	8

Section 4 (Answer all question(s))

Marks CO BL

Q15. Explain the components of Cost of Capital. 2 2 2

Rubric	Marks
2 marks for each component of Cost of Capital	2

		Marks	CO	BL
Q16. (a)	Assuming that the firm pays at a 30% rate, Compute the after-tax cost of capital in the following cases: (i) A 12.5% preference shares sold at par. (ii) A perpetual bond at par, coupon rate being 11.5%. (iii) A ten-year 6%Rs 900 bonds sold at Rs 650 (iv) A common share selling at a market price of Rs 90 and paying a current dividend of Rs 7 per share which is expected to grow at a rate of 6%.	**8**	**3**	**3**

(OR)

(b) A company was recently formed to manufacture a product. It has the following Capital Structure:

(i) 9% Debentures 3,00,000
(ii) 7% Preference Shares 1,00,000
(iii) Equity Shares (30,000 equity shares of Rs 10 each) 3,00,000
(iv) Retained Earnings 2,00,000

Total 9,00,000

The Market price of equity shares of Rs 40 per share is proposed. The company has a marginal tax rate is 30%. Compute the weighted average cost of capital of the company.

Rubric	Marks
WACC = 10.62% (For correct answer with steps)	8

Section 5 (Answer all question(s))

	Marks	CO	BL
Q17. Explain the factors influencing the Capital Structure.	**4**	**2**	**2**

Rubric	Marks
1 mark each for every factor influencing the Capital Structure (1*4)	4

		Marks	CO	BL
Q18. (a)	A company wishes to raise a total capital of Rs 2,00, 000.It has three plans: Plan A – No debt, all equity shares Plan B- 50% (10%),30% preference shares (12%) and 20% equity shares. Plan C -80% debt (10%), and 20% equity Shares. The face value of equity share is Rs 10. The rates in bracket indicates the fixed return on debt and preference shares. The company estimates its earning before interest and tax to be Rs 50,000. Which plan would be profitable?	**6**	**3**	**3**

(OR)

(b) A Ltd. has the following capital structure: Rs. Equity share capital (of Rs. 100 each) 1,00,000 10% Preference share capital (of Rs. 100 each) 2,00,000 10% debentures (of Rs. 100 each) 2,00,000 If EBIT is (i) Rs. 1,00,000 (ii) Rs. 80,000 and (iii) Rs. 1,20,000, Calculate financial leverage under three situations. Assume 50% tax rate.

Rubric	Marks
EBIT (₹) Financial Leverage (FL) 1,00,000 2.5 80,000 4.0 1,20,000 2.0 Higher EBIT reduces FL because fixed costs (interest + preference dividends) become a smaller proportion of earnings. Lower EBIT increases FL, indicating higher financial risk due to larger fixed obligations. FL = 4.0 at EBIT = ₹80,000 shows significant sensitivity to earnings changes.	6

Section 6 (Answer all question(s))

	Marks	CO	BL
Q19. Explain the importance of Working Capital.	3	2	2

Rubric	Marks
1 mark for each importance of Working Capital.	3

	Marks	CO	BL
Q20. (a) Explain the various types of Working Capital Requirements.	7	2	2

(OR)

(b) The following information has been extracted from the records of a Company:

Product cost sheet (per unit):

Raw Materials Rs 45
Direct Labour Rs 20
Overheads Rs 40

Total Rs 105
Profit Rs 15

Selling Price 120

- Raw materials are in stock on an average for two months.
- The materials are in process on an average for one month.
- The degree of completion is 50% in respect of all elements of cost.
- Finished goods stock on an average is for one month.
- Time lag in payment of wages and overheads is 1½ weeks.
- Time lag in receipt of proceeds from debtors is 2 months.
- Credit allowed by suppliers is one month. - 20% of the output is sold against cash.
- The company expects to keep a Cash balance of Rs 1,00,000.

The Company is poised for a manufacture of 1,44,000 units in the next year.

You are required to prepare a statement showing the Working Capital requirements of the Company.

Rubric	Marks
Annual WIP Cost: 1,44,000 × ₹60 = ₹86,40,000	7

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