Total No. of Questions: 21 **Enrollment No :** ____________________

MEDICAPS UNIVERSITY

Faculty of Commerce

End Semester Examination May 2025

CM3CO11 Fundamentals of Financial Management

Programme	:	B.Com. (Hons.)	**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)) **Marks CO BL**

Q1. Which of the following are two basic concepts of financial management? **1 1 1**
- ○ Cost and expenses
- ◉ Risk and return
- ○ Debit and credit
- ○ Receipts and payment

Q2. Discounting technique is used to find out- **1 1 1**
- ○ Terminal value
- ○ Compounded value
- ◉ Present value
- ○ Future value

Q3. Cost of capital refers to- **1 2 1**
- ○ Flotation cost
- ○ Dividend
- ◉ Required rate of return
- ○ None of these

Q4. Cost of redeemable preference share capital is- **1 2 1**
- ○ Rate of dividend
- ○ After tax rate of dividend
- ◉ Discount rate that equates PV of inflows and outflows relating to capital
- ○ As per equity share

Q5. Financial break-even of EBIT is one at which- **1 3 1**
- ○ EPS is one
- ◉ EPS is zero
- ○ EPS is infinite
- ○ EPS is negative

Q6. Trading of equity is- **1 3 1**
- ○ Always beneficial
- ◉ May be beneficial
- ○ Never beneficial
- ○ None of these

Q7. Payback period technique is based on- **1 4 1**
- ○ All cash flows
- ○ Only higher cash flow
- ◉ Earlier cash flow
- ○ Selected cash flow

Q8. Profitability Index method is an extension of- **1 4 1**
- ◉ Net present value
- ○ Internal rate of return
- ○ Payback period
- ○ Accounting rate of return

Q9. Management of working capital implies trade off between- **1 5 1**
- ○ Cost and revenue
- ○ Assets and liabilities
- ○ Debtors and creditors
- ◉ Liquidity and profitability

Q10. Net operating cycle is equal to- **1 5 1**

- (●) GOC-DP
- ( ) RMCP+RCP
- ( ) RMCP-RCP
- ( ) None of these

Section 2 (Answer all question(s))

	Marks	CO	BL
Q11. How is the goal of wealth maximization better to profit maximization?	3	1	2

Rubric	Marks
goal of wealth maximization better to profit maximization?	3

Q12. (a) The following information is available in respect of the return from security X under different economic conditions: **7 1 2**

Economic Conditions	Return (%)	Probability
Good	20%	1
Average	16%	4
Bad	10%	3
Poor	3%	2

Find out the expected return of the security and the risk associated with that.

Rubric	Marks
step wise	7

(OR)

(b) What do you mean by risk? How is it different from uncertainty? What are the different sources of risk?

Rubric	Marks
mean by risk= 1 marks different from uncertaint= 3 marks sources of risk= 3 marks	7

Section 3 (Answer all question(s))

	Marks	CO	BL
Q13. Explain the different approaches to the cost of retained earnings.	4	2	2

Rubric	Marks
approaches to the cost of retained earnings.	4

Q14. (a) ABC Ltd. has just declared and paid a dividend at the rate 15% on the equity share of Rs. 100 each. The expected future growth rate in dividends is 12%. Find out the cost of capital of equity shares given that the present market value of the share is Rs. 168. **6 2 2**

Rubric	Marks
step wise	6

(OR)

(b) A company is considering raising of funds of about Rs. 100 lakhs by one of two alternative methods viz 14% institutional term loan or 13% non-convertible debentures. The term loan option would attract no major incidental cost. The debentures would have to be issued at a discount of 2.5% and would involve cost of issue of Rs. 1,00,000.

What is the better option based on the effective cost of capital in each case? Tax rate of 50%.

Rubric	Marks
Step Wise Marking	6

Section 4 (Answer all question(s))

Marks CO BL

Q15. What do you mean by leverage? **2 3 1**

Rubric	Marks
Meaning of Leverage.	2

Q16. (a) XYZ & CO. is evaluating three financial plans. You are required to calculate the operating leverage (OL) and financial leverage (FL) for the firm under each plan, considering three different fixed cost scenarios. The following information is provided: **8 3 3**
Production: 800 units, selling price per Unit: Rs. 15, and variable cost per Unit: Rs. 10.
Fixed costs (under three different situations):

- Situation A: Rs. 1,000
- Situation B: Rs. 2,000
- Situation C: Rs. 3,000

Capital structure (under three different plans):

Particulars	Plan I (Rs.)	Plan II (Rs.)	Plan III (Rs.)
Equity capital	5,000	7,500	2,500
12% Debt	5,000	2,500	7,500

Rubric	Marks
Operating leverage= 4 marks Financial leverage= 4 marks	8

(OR)

(b) What is combined leverage? Examine its significance in the financial planning of a firm.

Rubric	Marks
Combined Leverage= 2 marks Significance in Financial Planning of a firm.= 6 marks	8

Section 5 (Answer all question(s))

Marks CO BL

Q17. Write short notes on- **4 4 2**

- Reinvestment rate
- Discounted cash flow method

Rubric	Marks
Reinvestment rate =2 marks Discounted cash flow method =2 marks	4

Q18. (a) What is the concept of time value of money is applied to capital budgeting? What are the methods based on time value of money? **6 4 3**

Rubric	Marks
Time value of money is applied to capital budgeting.= 2 marks Methods based on time value of money..= 4 marks	6

(OR)

(b) ABC Ltd., with a required rate of return (discount rate) of 10%, is considering replacing its existing plant with a new one. The relevant financial data for both the existing and the proposed plant are as follows:

Particulars	Existing Plant (Rs.)	Proposed Plant (Rs.)
Present Book Value	24,000	-
Cost of New Plant	-	54,000
Remaining Useful Life	6 years	6 years
Annual Depreciation	4,000	9,000
Current Salvage Value	20,000	-
Annual Profit Before Depreciation and Tax (PBDT)	8,000	15,000

Additional Information:

- The tax rate applicable to the firm is 40%
- Loss on the disposal of an asset is not tax deductible.

Evaluate the plant replacement proposal using both of the following capital budgeting techniques-

(i) Net Present Value (NPV)

(ii) Internal Rate of Return (IRR)

Rubric	Marks
tax rate applicable to the firm is 40%= 3marks that the loss on disposal of an asset is not tax deductible= 3marks	6

Section 6 (Answer any 2 question(s))

Marks CO BL

Q19. What is working capital? Explain its various kinds. **5 5 2**

Rubric	Marks
Meaning working capital.= 2 marks Various kinds.= 3 marks	5

Q20. Explain the importance of working capital management. Explain the factors determining of working capital requirements. **5** **5** **2**

Rubric	Marks
Explain the importance of working capital management= 2 marks factors determining of working capital requirements= 3 marks	5

Q21. XYZ Ltd. has provided the following financial information (in thousands of rupees): **5** **5** **2**

Sales	Rs. 3,000
Cost of Production	Rs. 2,100
Purchases	Rs. 600
Average Raw Material Stock	Rs. 80
Average Work-in-Progress	Rs. 85
Average Finished Goods Stock	Rs. 180
Average Creditors	Rs. 90
Average Debtors	Rs. 350

Calculate the current working capital cycle for XYZ Ltd. in terms of the number of days.

Rubric	Marks
operating cycle of working capital	5

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