Reg. No .... Name **25U376-S**

B.COM DEGREE END SEMESTER EXAMINATION - OCTOBER 2025

SEMESTER 3 : COMMERCE (OPTIONAL COURSE FOR FINANCE AND TAXATION)

COURSE : **19U3OPCFT1 : FINANCIAL MANAGEMENT**

(For Improvement/ Supplementary 2023/ 2022/ 2021/2020/2019/2018/2017/2016/2015 Admissions)

Time : Three Hours Max. Marks: 75

PART A

Answer any 10 (2 marks each)

1. Why is financial management known as corporate finance?
2. Differentiate financial risk and business risk?
3. What is stable dividend policy?
4. What is cost-volume-profit analysis?
5. X Ltd issues 10% debentures of Rs.10,00,000 and realizes Rs.9,80,000 after paying 2% commission to brokers. The debentures are redeemable at the end of 10^{th} year. The rate of tax is 30%. Calculate cost of capital.
6. What is working capital management?
7. How is bonus issue different from new issue of shares?
8. What is cost of production?
9. What is working capital?
10. What is cost of perpetual debt?
11. What are the various approaches to finance?
12. From the following information compute percentage change in EPS when the sales are expected to decline by 5%. EBIT- Rs.1,20,000, contribution –Rs.40,000, interest – Rs.10,000.

(2 x 10 = 20)

PART B

Answer any 5 (5 marks each)

13. What do you mean by capital structure? What are the features of a sound capital structure?
14. The following information is provided about Growmore Ltd. Find the MPS using Walter's model when IRR is (a) 8% (b)12% and pay-out ratios under each rate of return are 0%, 20% and 40%.
    EPS = Rs. 20
    Cost of capital (Ke) is 10%
15. What is negative working capital? Give an example.
16. Why is cost of capital referred to as the minimum rate of return from investments?
17. Estella garment company limited had a production of 15,00,000, the same level is intended to be maintained in the current year. Estimate its working capital from the following-
    The expected ratio of cost to selling price are-
    Raw material 40%
    Direct wages 20%
    Overheads 20%

    Raw materials remain instore for 3 months, every unit remain in process for 2 months and is assumed to be consisting of 100% material, labour and overheads. Finished goods remain in store for 3 months. Credit allowed by creditors is 4 months and credit allowed to debtors is 3 months. Estimated balance of cash to be held Rs.2,00,000. Lag in payment of wages and expenses ½ month. Selling price Rs.10 per unit. You are required to make a provision of 10% for contingencies (except cash).

18. "A firm should follow a policy of a very high dividend pay-out". Do you agree, substantiate your answer?

19. Wealth maximisation is a better objective than profit maximisation-Substantiate.

20. Calculate the operating leverage, financial leverage and combined leverage from the following date under situations I and II and Financial plans A and B.

Installed capacity	4,000 units
Actual production and sales	75% of the capacity
Selling price	Rs. 30 per unit
Variable cost	Rs. 15 per unit
Fixed Cost	
Under Situation I	Rs. 15,000
Under Situation II	Rs.20,000

Capital Structure:

	Financial Plan A	Financial Plan B
Equity	Rs. 10,000	Rs. 15,000
Debt (Rate of interest 20%)	Rs. 10,000	Rs. 5,000
	20,000	20,000

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. Calculate the level of EBIT at which the indifference point between the following financing alternatives will occur. Also verify your results.

    a) Common share capital of Rs.10,00,000 or 15% debentures of Rs. 5,00,000 and common share capital of Rs, 5,00,000.

    b) Common share capital of 10,00,000 or 13% preference share capital of Rs. 5,00,000 and common share capital of Rs. 5,00,000.

    c) Common share capitals of Rs. 10,00,000 or common share capitals of Rs. 5,00,000, 13% preference share capital of Rs. 2,00,000 and 15% debentures of Rs.3,00,000.

22. What are the challenges of a finance manager in the modern period? Examine the same in the light of finance function of a company

23. The data of ABC Ltd is as under:

Production for the year	69,000 units
Finished goods inventory	3 months
Raw material inventory	2 months consumption
Production process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs. 50 each
Raw materials	50% of selling price
Direct wages	10% of selling price
Overhead	20% of selling price

There is regular production and sales cycle, and wages and overhead accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle. Work in process involves use of full unit of raw materials in the beginning of manufacturing process and other conversion cost equivalent to 50%. Find out the working capital requirement.

24. You are required to determine the weighted average cost of capital (Ko) of the K.C. Ltd using a) book value weights; and b) market value weights. The following information is available for your perusal. The K.C. Ltd's present book value capital structure is:

Debentures (Rs. 100 per debenture)	8,00,000
Preference shares (Rs. 100 per share)	2,00,000
Equity shares (Rs.10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are debentures @ Rs.110, preference shares @ Rs.120 and equity shares @Rs.22. Anticipated external financing opportunities are-

(i) Rs. 100 per debenture redeemable at par: 20 year maturity, 8% coupon rate, 4% floatation cost, sale price Rs. 100

(ii) RS. 100 preference share redeemable at par: 15 year maturity, 10% dividend rate, 5% floatation costs, sale price Rs.100

(iii) Equity share Rs. 2 per share floatation cost, sale price Rs.22.

In addition, the dividend expected on the equity share at the end of the year Rs. 2 per share; the anticipated growth rate in dividends is 5% and the company has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 50%.

25. Foods limited is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase capacity utilisation in the coming year by $33\ _{1/3}$ % over the existing level of production. The following data has been supplied:

i) Unit cost structure of the product at current level:

Raw material	4
Wages (variable)	2
Overheads (variable)	2
Fixed overhead	1
Profit	3
Selling price	12

ii) Raw materials will remain in stores for 1 month before being issued for production. Materials will remain in process for further 1 month. Suppliers grant 3 months credit to the company.

iii)Finished goods remain in go down for 1 month

iv)Debtors are allowed credit for 2 months

v)Lag in wages and overhead payment is 1 month and these expenses accrue evenly throughout the production cycle

vi)No increase in cost of inputs or selling price is envisaged

Prepare a projected profitability statement and the working capital requirements at the new level, assuming that a minimum cash balance of Rs. 19500 has to be maintained.

(10 x 3 = 30)