(7 pages)

APRIL 2026 **72267/250C3B**

Time : Three hours Maximum : 75 marks

SECTION A — (10 × 2 = 20 marks)

Answer any TEN questions in about 30 words each.

1. What are the main financial decisions taken by the financial manager?

2. What is meant by trading on equity?

3. State any four factors that determine the capital structure of a firm.

4. What is meant by the term "leverage"? What are its types?

5. Write short notes on cost of debt.

6. What do you mean by mutually exclusive project?

7. What is the accept and reject criterion under IRR technique?

8. State the feature of capital budgeting.

9. How do you compute share price under Walter theory of dividend?

10. Define growth under Gordon model.

11. State the various stages of operating cycle.

12. Distinguish between permanent working capital and variable working capital

SECTION B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. Explain the objectives of Financial Management. How do these objectives influence major financial decisions?

14. A company issues Rs. 20,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 50,000. The debentures are redeemable after 8 years. Calculate before tax and after tax cost of debt assuring a tax rate of 55%.

15. From the following capital structure and after – tax cost for different sources of funds, compute the weighted average cost of capital of a firm.

Source of funds	Amount Rs.	After - tax cost of capitals
Equity capital	4,50,000	0.14
Retained earnings	1,50,000	0.13
Preference share capital	1,00,000	0.10
Debentures	3,00,000	0.5

16. Calculate the internal rate of return of an investment of Rs. 1,36,000 which yields the following cash inflows.

Year	Cash Inflows (in Rs.)
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

17. Aswanth Ltd earns a profit of Rs. 50 Per share. The rate of capitalization is 18% and the productivity of retained earnings is 12%. Using Gordan model, determine the market price per share if the if the pay- out ratio is (a) 20% (b) 40% (c) 90%.

18. Critically explain Walter's relevance theory of dividends.

19. Define the term working capital. What factors would you take into consideration in estimating the working capital needs of a concern?

SECTION C — (3 × 10 = 30 marks)

Answer any THREE questions.

20. Analyze the various forms of long-term finance, including shares, debentures, and term loans. State the advantages and disadvantages of each?

21. Ganesh Ltd has the following capital structures:

Equity capital Rs.10 each Rs. 20,00,000

10% Preference capital Rs. 100 each Rs. 12,00,000

Retained earnings Rs. 24,00,000

11% Debentures (Rs. 10 each) Rs. 10,00,000

12% Loan Rs. 9,00,000

The next expected equity dividend is Rs. 3 per share. The dividend is expected to grow at 7% per annum. Market price of the equity share is Rs. 12 per share. Preference share redeemable after 10 years is currently selling at Rs. 95. Debentures redeemable after 5 years are selling at Rs. 12. Assume tax rate is 40%. Calculate weighted average cost of capital using Market value as weights.

22. A company is considering the purchase of two machines with the following details:

	Machine I	Machine II
Life estimated	3 years	3 years
Capital Cost	Rs 10,000	Rs 10,000
Net Cash flows	*Rs*	*Rs*
1st year	8,000	2,000
2nd year	6,000	7,000
3rd year	4,000	10,000

You are required to suggest which machine should be preferred, using:

(a) Pay-back period method

(b) NPV method (using 10% discount factor).

23. Details regarding three companies are given below. By using Walter's Model

(a) Calculate the value of an equity share of the following companies when dividend payout ratios are ratios (i) 30% and (ii) 60%, (iii) 90%

(b) Comment on the results drawn

Particulars	N Ltd	M Ltd	G Ltd
r	18%	20%	8%
K	15%	20%	10%
E	Rs. 30	Rs. 40	Rs. 20

24. A proforma cost sheet of a company provides the following particulars. You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

	Cost Per Unit (Rs.)
Raw materials	80
Direct labour	30
Overheads	60
Total	170
Profit	30
Selling price per unit	200

The following further particulars are available:

(a) Raw materials are in stock on an average for one month.

(b) Materials are in process on an average for half a month.

(c) Finished goods are in stock on an average for one month.

(d) Credit allowed by suppliers is one month.

(e) Credit allowed to customers is two months.

(f) Lag in payment of wages is 1½ weeks.

(g) Lag in payment of overhead expenses is one month.

(h) One-fourth of the output is sold against cash.

(i) Cash in hand and at bank is expected to be Rs. 25,000
