(7 pages)

NOVEMBER 2025 **72267/250C3B**

Time : Three hours Maximum : 75 marks

SECTION A — (10 × 2 = 20 marks)

Answer any TEN questions, in about 30 words each.

1. List any four objectives of Financial Management.

2. What are the sources of fixed capital?

3. How does an Operating Leverage differ from Financial Leverage?

4. What do you mean by Optimal Capital Structure?

5. What is the significance of leverage analysis?

6. List out the features of cost of capital.

7. How will you calculate IRR when cash inflows are uniform under trial and error method?

8. What is the accept and reject criterion under NPV technique?

9. What is declining firm under Walters model?

10. Give a short note on stable dividend policy

11. Write any five sources of short-term working capital.

12. List out the components of working capital.

SECTION B — (5 × 5 = 25 marks)

Answer any FIVE questions.

13. What are the responsibilities of the Financial Manager in a Modern Business Organization?

14. Calculate the operating financial and combined leverage from the following information:

Sales	Rs. 35,000
Interest	Rs 2,500
Variable costs	Rs 20,000
Fixed cost	Rs 10,000

15. A company issues 1,00,000 10% preference shares of Rs. 10 each. Calculate the cost of preference capital if it is redeemable after 10 years. (a) at par (b) at 5% premium.

16. A project needs an investment of Rs.2,00,000. The cost of capital is 10%. The scrap value is Rs.20,000 and Working capital is Rs.10,000. The Earnings after tax are as under: Calculate the Average rate of return

Year	Earnings After Tax Rs
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

17. Explain the Modigliani — Miller hypothesis of irrelevance and its criticisms.

18. The earnings per share of a company are Rs.10. The rate of capitalization is 10% and the returned earnings per share can be employed to yield a return of 20%. The company is considering a payment of (a) 20% (b) 40%. Which of these would maximize the wealth of the shareholders as per Walters model?

19. Describe the operating cycle and its impact on working capital needs.

SECTION C — (3 × 10 = 30 marks)

Answer any THREE questions.

20. Discuss the nature, scope, and functions of Financial Management in detail. Explain how the organization of financial functions contributes to effective financial management.

21. A Company earns a profit of Rs. 3,00,000 per annum after meeting its interest liability of Rs.1,20,000 on 12% Debentures. The tax rate is 50%. The number of equity shares of Rs. 10 each are 80,000 and the retained earnings amount to Rs. 12,00,000. The company proposes to take up an expansion scheme for which a sum of Rs. 4,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be either through debt at the rate of 12% or by issuing equity shares at par.

(a) Compute the earning per share (EPS), if:

- The additional funds were raised as debt

- The additional funds were raised as equity shares.

(b) Advise the company as to which source of finance is preferable.

22. The Alfa Company limited considering the purchase of a new machine. Two alternative machines X and Y have been suggested, each having an initial cost of Rs. 40,000/- and requiring Rs. 2,000/- as additional working capital at the end of the 1st year. Cash flows after taxes are as follows

Year	Project X (Rs.)	Project Y (Rs.)
1	4,000	12,000
2	12,000	16,000
3	16,000	20,000
4	24,000	12,000
5	16,000	8,000

The company has a target return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider as financially preferable.

(P.V. of Rs. 1 at 10% from year 1 to year 5 is 0.909, 0.826, 0.75 1, 0.683 and 0.621 respectively.)

23. RST Ltd. has a capital of Rs.10,00,000 in equity shares of 100 each. The shares are currently quoted at par. The company proposes to declare a dividend of 10 per share at the end of the current financial year. The capitalization rate for the risk class of which the company belongs is 12%. Compute market price of the share at the end of the year, if

(a) Dividend is not declared?

(b) Dividend is declared?

(c) Assuming that the company pays the dividend and has net profits of Rs.5,00,000 and makes new investments of Rs.10,00,000 during the period, how many new shares must be issued? Use the MM Model.

24. The board of Directors of Ruby Ltd. Requests you to prepare a statement showing the working capital requirement forecast for a level of activity of 60,000 units of production. The following information is available for your calculation:

	Cost Per Unit (Rs.)
Raw materials	12
Direct labour	8
Overheads	4
Total	24
Profit	6
Selling price per unit	30

(a) Raw materials are in stock on average for 3 months

(b) Work in progress (100% compute in regard to material and 50 % for labour and overheads) will be half a month's production

(c) Finished goods are in stock, on average 2 months.

(d) Credit allowed by suppliers 2 months

(e) Credit allowed to debtors 1 month

(f) A minimum cash balance of Rs.60,000 is expected to be maintained.

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