ST. FRANCIS DE SALES COLLEGE

A FRANSALIAN INSTITUTE OF HIGHER EDUCATION **AUTONOMOUS**

NAAC A GRADE • AFFILIATED TO BANGALORE UNIVERSITY • AICTE APPROVED • 2(F) & 12 (B) RECOGNITION OF UGC • ISO 9001:2015 CERTIFIED

Electronics City P.O., Bengaluru - 560 100, Karnataka, INDIA (+91) 8088140679 pro@sfscollege.in www.sfscollege.in

END SEMESTER EXAMINATION –NOV/DEC 2025

COMMERCE – III SEMESTER BCOM

25BCO34A/B : FINANCIAL MANAGEMENT

Time: 3 Hours **Max. Marks:80**

Instruction: *Answer should be written completely in English.*

SECTION - A

1. Answer any **SEVEN** questions. Each question carries **TWO** marks. **(7X2=14)**

a) What is profit maximisation?
b) State any two objectives of financial management.
c) Mention the techniques of time value of money.
d) Mr. X deposits Rs.10,000 at the end of every year for 4 years and the deposit earns a compound interest at 10% per-annum. Determine how much money he will have at the end of 4 years.
e) What do you mean by trading on equity?
f) Calculate combined leverage: Sales Rs.4,00,000, variable cost Rs.1,40,000, fixed cost Rs.1,30,000 Interest charges Rs.30,000.
g) Distinguish between operating and financial leverage.
h) What is EPS and how it is calculated?
i) Mention any two types of dividends
j) What is Walter's model?

SECTION - B

Answer any **THREE** questions. Each question carries **EIGHT** marks. **(3X8=24)**

2. What are the main aspects involved in scope of financial management?
3. Calculate the compound value of the following payments at 10% rate of Interest

Year	1	2	3	4	5
Cash flows in (Rs)	4,000	5,000	6,000	7,000	8,000

4. Determine the three types of leverages from the following information.
Number of units sold: 90,000
Selling price per unit: ₹10
Variable cost per unit: ₹6
Fixed cost: ₹ 1,20,000
10% debt capital: ₹ 3,00,000

5. Calculate financial leverage and operating leverage under situations A and B and Financial Plans – I & II respectively from the following relating to the operation and capital structure of ABC Ltd. Installed Capacity: 1,000 units Actual production and sales: 800 units

Selling price per unit: ₹ 20
Variable cost per unit: ₹ 15
Fixed Cost:
Situation – A: ₹ 800
Situation – B: ₹ 1,500

Capital Structure	Plan I	Plan II
Equity	5,000	7,000
Debt	5,000	3,000
Cost of debt	10%	10%

6. The dividend payout ratio of the following three companies is 50%. From the following other details calculate the value of an equity share of each of these companies by Walter's formula.

	Raja Ltd.	Rani Ltd	Rocket Ltd.
E	Rs.24	Rs.24	Rs.24
r	5%	10%	10%
Ke	10%	15%	10%

SECTION – C

Answer any **THREE** questions. Each question carries **FOURTEEN** marks. **(3X14=42)**

7. Describe the important guidelines for preparing a sound financial plan.

8. A company has EBIT of ₹ 4,80,000 and its capital structure consists of the following securities:
Equity shares capital (₹10 each) | ₹ 4,00,000
12% Preference share capital | ₹ 6,00,000
14.5% Debentures | ₹ 10,00,000
The company is facing fluctuations in its sales. What would be the change in EPS:
a) If EBIT of the company increased by 25% and
b) If EBIT of the company decreased by 25%?
The Corporate tax is 35%.

9. The balance sheet of a company is as follows:

Liabilities		Assets	
Equity shares of Rs.10 each	6,00,000	Fixed Assets	15,00,000
10% Debentures	8,00,000	Current Assets	5,00,000
P & L A/c	2,00,000		
Creditors	4,00,000		
Total	20,00,000	Total	20,00,000

The company's total assets turnover ratio is 5 times. Its fixed operating expenses are Rs.10,00,000 and variable cost is 30%. Income tax rate is 50%. Calculate the level of EBIT if EPS is a) Rs. 2, b) Rs.3, c) Rs.4 and d) Rs.5.

10. Excellent Ltd., has currently Equity Share capital of ₹ 25,00,000, consisting of 25,000 shares of ₹ 100 each. The management is planning to raise another ₹ 20,00,000 to finance a major programme of expansion through one of the four possible financial plans. The options are:

a. All through Equity Shares.

b. ₹ 10,00,000 through Equity Shares and ₹ 10,00,000 through long-term borrowings at 8% interest per annum.

c. ₹ 5,00,000 through Equity Shares and ₹ 15,00,000 through long-term borrowings at 9% interest per annum.

d. ₹ 10,00,000 through Equity Shares and ₹ 10,00,000 through Preference Shares with 5% Dividend.

The company's expected earnings before interest and tax (EBIT) will be ₹ 8,00,000. Assuming a corporate tax rate of 50%, determine the earnings per share in each alternative and comment, which alternative is best and why?

11. The following information is available in respect of return on investment (r), the cost of capital (K) and earning per share (E) of XYZ Limited. R= 10% E = 40. Determine the value of its shares using Gordon's model assuming the following:

Particulars	D/P Ratio	Retention Ratio (b)	Cost of equity (k)
a.	20	80	20
b.	40	60	18
c.	60	40	16
d.	80	20	14