



PRACTICE SET
End Semester Examination, December, 2025

Program: BBA

Semester: III

Subject: Financial Management

Subject Code: 11CC201

Course Education Objectives:

CEO 1: Provide a comprehensive view of the Fundamental Financial Concepts.

CEO 2: To develop analytical skills to identify financial management problems and solve them.

CEO 3: Explain the various techniques to evaluate the investment in long term assets and working capital.

CEO 4: Developing knowledge on the importance and methods of evaluating Financing decision & Dividend Decisions.

Intended outcomes for the Course:

On the completion of the Course, the students will be able to:

CO 1: Understand the applicability of the Fundamental Financial Concepts in Corporate Decision Making.

CO 2: Evaluate and decide on the long-term assets which are profitable to the business by applying capital budgeting techniques

CO 3: Evaluate the various sources of raising finance with their pros & cons in different situations.

CO 4: Analyze the Complexities associated with the sources of raising funds in Capital Structure.

CO 5: Develop skills for effective short-term Investment and Dividend decisions making,

SECTION A

Question for Five (5) marks:

1. “The pursuit of wealth maximization as the overall goal of business reconciles the conflicting interests of varied stakeholders.” Comment. [CO1, Unit-I, BTL- LOT, Analyze]
2. “Financial Management is concerned with the solutions of three major decisions a firm must make.” Explain the statement highlighting the interrelationship amongst these decisions. [CO1, Unit-I, BTL- LOT, Analyze]
3. Explain the relevance of Time Value of Money in Financial Decision Making. [CO1, Unit-I, BTL- LOT, Remember]
4. State the relationship between effective rate of interest and stated interest rate. [CO1, Unit-I, BTL- LOT, Understand]
5. Mr. X wishes to determine the present value of the annuity consisting of cash inflows of Rs 1000 per year for 5 years. The rate of interest he can earn from his investment is 10 percent. [CO1, Unit-I, BTL- LOT, Apply]
6. Explain the objectives of capital budgeting decisions. [CO2, Unit- II, BTL- LOT, Remember]
7. Explain the distinct categories of Capital Budgeting decisions. [CO2, Unit- II, BTL- LOT Remember]
8. Define Cash Flows. How is it different from profit? [CO2, Unit- II, BTL- LOT Understand]
9. “Payback period is more a method of liquidity rather than a profitability.” Examine. [CO2, Unit- II, BTL- LOT, Understand]
10. What is an ordinary Share? How is it different from a preference share & debenture? [CO3, Unit-III, BTL- LOT, Understand]
11. Bose Systems Ltd. has planned to issue 30,000 14% preference shares of Rs 100 each that are redeemable after 10 years. Floatation costs are expected to be 2% of sale proceeds of the issue. Calculate the cost of Preference capital. [CO3, Unit-3, BTL- LOT, Apply]

- 12.** Despite no legal binding to pay dividend the cost of equity is not zero but the highest. Explain. [CO3, Unit-III, BTL- LOT, Understand]
- 13.** Distinguish between operating Leverage & Financial Leverage. [CO4, Unit-III, BTL- LOT Understand]
- 14.** Consider the given information for XYZ Ltd:

Particulars	Amount (Rs)
Sales (Variable cost 60% of sales)	2,50,000
EBIT	80,000
PBT	40,000
Tax Rate	35%

Calculate the different types of leverages. Calculate the percentage change in earnings per share, if sales increased by 9%. [CO4, Unit-III, BTL- LOT, Apply]

- 15.** Discuss the determinants of Capital Structure. [CO4, Unit-III, BTL- LOT, Understand]
- 16.** Differentiate between the net income and net operating income approaches for determining the value of the firm with the changes in the capital structure. [CO4, Unit-III, BTL- LOT, Apply]
- 17.** What are the practical considerations that make the dividend policy relevant?. [CO5, Unit-IV, BTL-LOT Understand]
- 18.** Explain the concept of permanent and temporary working capital. [CO5, Unit-IV, BTL- LOT, Understand]
- 19.** Explain the concept of a firm's operating cycle and illustrate the method of its calculation.(CO5, Unit-IV, BTL-LOT, Understand)
- 20.** Define a stock dividend and examine the rationale behind its issue.(CO5, Unit-IV, BTL- LOT, Apply)

SECTION B

Question for Ten (10) marks:

21. An LED TV can be purchased by paying ₹ 50000 now or ₹ 20000 each at the end of first , second and third year respectively. To pay cash now, the buyer would have to withdraw the money from an investment, earning interest at 10% p.a. compounded annually. Which option is better and by how much, in present value terms? [CO1, Unit- I, BTL-HOT, Evaluate]
22. Explain how the scope of Finance Manager has changed over time. What role does a finance manager play for a modern firm? [CO1, Unit- I, BTL-HOT, Analyze]
23. Ms. Soumya invested ₹ 10000 for five years at an interest rate of 12% p.a. Find out the interest on investment, if the interest is compounded (i) yearly, (ii) semi annually,(iii) quarterly.[CO1, Unit- I, BTL-HOT, Analyze]
24. Explain briefly the procedure that is followed during the course of capital Budgeting decision making. [CO2, Unit- II, BTL-LOT, Apply]
25. A choice is to be made between two competing projects, which require an equal investment of ₹50000 and are expected to generate net cash inflows as under: -

End of the year	Project I	Project II
1	25000	10000
2	15000	12000
3	10000	18000
4	Nil	25000
5	12000	8000
6	6000	4000

The Cost of Capital is 10% using discounted Cash flow method recommended which proposal is to be preferred. [CO2, Unit- II, BTL-HOT, Evaluate]

26. Compare and evaluate the similarities and dissimilarities between NPV and IRR. Justify which method you would prefer when both give different rankings of investment proposals and explain why.(CO2, Unit–II, BTL–HOT, Evaluate)
27. Explain the concept of the Sensitivity Approach and demonstrate how it is used in evaluating risky investment proposals.
(CO2, Unit–II, BTL–LOT, Understand)

- 28.** a) A company expects a net income of Rs 80,000. It has Rs 2, 00,000, 8% debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the Net Income approach.
- b) If the debenture debt increased to Rs 3, 00,000, what shall be the value of the firm and overall capitalization rate? [CO4, Unit-III, BTL-HOT, Evaluate]
- 29.** Examine critically the different approaches for computing the cost of equity. Discuss the merits and demerits of each. [CO3, Unit-III, BTL-HOT, Evaluate]
- 30.** Udhaar Enterprises Limited has borrowed from the market by issue of debenture with the coupon rate of 10.50%. It is a profitable enterprise paying 36% tax.
- a) What is the cost of debt if it sells at 5% discount to the face value?
- b) If instead of debt, the firm had issued a preference share with the promised dividend of 10.5%, What would be the cost of preference shares when it sells at 5% premium. [CO3, Unit-III, BTL-HOT, Evaluate]
- 31.** “Market value weights are superior to book value weights. “Comment. [CO3, Unit-III, BTL-HOT, Analyze]
- 32.** Explain the concept of an optimal capital structure and analyze the differences and similarities between the Net Operating Income (NOI) approach and the Modigliani–Miller (MM) approach. (CO4, Unit–III, BTL–HOT, Analyze)
- 33.** Analyze what the degree of combined leverage measures and examine how it changes, assuming other factors remain constant, in each of the following situations:
- a) When the fixed cost increases
- b) When the selling price decreases [CO4, Unit-III, BTL-HOT, Analyze]

34. a) Bose systems Ltd. Has planned to issue 30,000, 14% preference shares of Rs 100 each that are redeemable after 10 years. Floatation costs are expected to be 2% of sale proceeds of the issue. Calculate the cost of Preference Capital.

b) The current market price of a share is Rs 100. The firms' current earnings are Rs 21 Crore and its shares outstanding are Rs 2 Crore. It is contemplating to raise additional funds of Rs 6 Crore by issuing equity at a premium of 10%. The Flotation cost is Rs 5 per share. Compute the cost of Equity Capital. [CO3, Unit-III, BTL-HOT, Evaluate]

35. The firm is considering two financial plans with a view to examine their impact on Earnings per share. The total funds required for investment in assets are Rs 5,00,000 The earnings before interest and tax are assumed as Rs 50,000 and Rs 75,000. The rate of tax be taken at 50%. Comment. [CO4, Unit-III, BTL-HOT, Analyze]

	PLAN I	PLAN II
Debt (Interest @ 10%)	4,00,000	1,00,000
Equity Shares (Rs 10 each)	1,00,000	4,00,000
Total Finances required	5,00,000	5,00,000
No. of equity shares	10,000	40,000

36. Explain what is meant by working Capital. As a management consultant, you are required to state the considerations involved in estimating the amount of the required working capital. Suggest ways & means to meet the need for working capital in the case of newly started business. [CO5, Unit-IV, BTL-HOT, Evaluate]

37. "There is no basic difference between Walter's Model & Gordon's Model." Comment. [CO5, Unit-IV, BTL-LOT, Apply]

38. “A firm should follow a policy of very high dividend pay-out.” Do you agree? Why or why not? [CO5, Unit-IV, BTL-HOT, Analyze]
39. “Liquidity and profitability are two important competing goals for finance managers.” Comment. [CO5, Unit-IV, BTL-HOT, Analyze]

SECTION C

Question for twenty (20) marks:

40. When can there arise a conflict between shareholder’s and manager’s goals? How does wealth maximization goal take care of this objective? [CO1, Unit-I, BTL- HOT, Analyze]
41. Explain why is the consideration of time important in financial decision making? How can time be adjusted? [CO1, Unit-I, BTL- HOT, Analyze]
42. A firm has provided the following information for the year ended 31-03-2016. [CO5, Unit-IV, BTL-HOT, Evaluate]

Liabilities	Amount (₹)	Assets	Amount (₹)
Equity Share Capital	200000	Fixed Assets (Less depreciation)	300000
8% Debentures	100000	Inventories	100000
Reserves & Surplus	50000	Sundry Debtors	70000
Long term Loans	50000	Cash and Bank	10000
Sundry Creditors	80000		
Total	480000	Total	480000

Sales for the year ended 31-03-2016 amounted to ₹ 1000000 and it is estimated that the same will amount to ₹ 1200000 for the year 2016-17. You are required to estimate the working capital requirements for the year 2016-17 assuming a linear relationship between sales and working capital.

43. A project needs an investment of ₹ 1385000. The Cost of Capital is 12%. The net cash inflows are as follows:- [CO4, Unit-III, BTL-HOT, Evaluate]

Year	Cash Flow After Tax
1	300000
2	400000
3	600000
4	300000
5	200000

By using IRR method decide project are acceptable or not.

44. Does a firm's tax rate affect its cost of capital? What is the effect of Floation Costs associated with the new issue on the firm's Cost of Capital? Illustrate with the help of suitable examples. [CO3, Unit-III, BTL-HOT, Evaluate]

45. The Capital Structure of ABC Ltd. As on 31-3-2021 is as follows:

Book Value Structure	₹
Equity shares (FV Rs 10 each)	5,00,000
12% Preference Shares (FV Rs 100 each)	4,00,000
8% Debentures (FV Rs 100)	6,00,000

The equity shares are currently selling at Rs 15 each. The company paid a dividend of Re 2 per share for the last year. The dividends are expected to increase at 5%p.a. The preference shares and debentures are being traded at 90% and 80%. Tax rate applicable to the company is 40%. Find out the weighted average cost of capital of the firm using i) Book Value weights ii) Market vale weights. [CO5, Unit-IV, BTL-HOT, Evaluate]

Summary Sheet:

CO Wise:

CO	Question No	Marks
CO1	1,2,3,4,5,21,22,23,40,41	95
CO2	6,7,8,9,24,25,26,27	60
CO3	10,11,12,29,30,31,34,44	75
C04	13,14,15,16,28,32,33,35,42,43	100
CO5	17,18,19,20,36,37,38,39,45	80

Unit Wise:

Unit	Question No	Marks
I	1,2,3,4,5,21,22,23,40,41	95
II	6,7,8,9,24,25,26,27	60
III	10,11,12,13,14,15,16,28,29,30, 31,32,33,34,35,44,43	155
IV	17,18,19,20,36,37,38,39,42,45	100

Blooms Taxonomy Level (BTL) Wise:

BTL	Question No	Marks
LOT	3,4,5,6,7,8,10,11,12,15,16,17,18,19,20,24,27,37	105
HOT	1,2,9,13,14,21,22,23,25,26,28,29,30,31,32,33,34,35,36,38,39,40,41,42,43, 44,45	305

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Disclaimer: - This is a Practice Set. The Question in End term examination will differ from the Practice set. This Practice set is meant for practice only.