PRACTICE SET
End Semester Examination, Spring- 2026

Program: B.COM

Semester: IV

Subject: Financial Management

Subject Code: 32ACC205

Course Learning Objectives:

The Objective of the course are classified as follows: -

CLO 1: To make the student understand the fundamental concepts of financial management, including its scope, objectives, time value of money, and the relationship between risk and return using CAPM.

CLO 2: To help the student learn to evaluate long-term investment decisions using key capital budgeting techniques and estimate relevant cash flows.

CLO 3: To help the student develop the ability to estimate the cost of capital from various sources and analyse capital structure theories and the impact of leverage.

CLO 4: To make the student understand the relevance and irrelevance theories of dividend policy and analyse their implications for corporate valuation and dividend practices.

Course Outcomes:

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

CO 1: Demonstrate the ability to apply financial principles and CAPM to assess the time value of money and investment risk-return trade-offs.

CO 2: Apply capital budgeting tools such as NPV, IRR, and Payback Period to assess the financial feasibility of investment proposals.

CO 3: Calculate WACC and evaluate financing alternatives and capital structure decisions using theoretical and practical approaches.

CO 4: Evaluate dividend decisions using models such as Walter's, Gordon's, and MM Approach, and examine their application in real-world corporate policies.

UNIT I

Section A (10 marks)

1. Evaluate whether profit maximization is a suitable objective for modern businesses. [CO1, Unit-I, BTL- HOT, Evaluate]
2. Develop a model outlining the scope and objectives of financial management. [CO1, Unit-I, BTL- HOT, Create]
3. A company is considering investing in a new project and wants to evaluate whether the expected return justifies the risk. Using the Capital Asset Pricing Model (CAPM), the risk-free rate is 4%, the expected market return is 12%, and the project's beta is 1.5. Calculate the expected return of the project according to CAPM. [CO1, Unit-I, BTL-HOT, Apply]
4. Describe Time Value of Money (TVM) & its method with suitable example. [CO1, Unit-I, BTL- HOT, understand]

Section B (20 marks)

5. A company is evaluating a project that requires an initial investment of Rs.50,000. The project is expected to generate annual cash inflows of Rs.12,000 for 6 years. Calculate the payback period. If the company's policy requires a payback period of no more than 4 years, should the project be accepted or rejected explain why? [CO1, Unit-I, BTL-HOT, Evaluate]
6. Explain systematic and unsystematic risk. How can a diversified portfolio reduce unsystematic risk? Illustrate with an example. [CO1, Unit-I, BTL-HOT, Analyse]

UNIT II

Section A (10 marks)

7. Distinguish the term Net Present Value (NPV) and Internal Rate of Return (IRR). Which One is better and why? [CO2, Unit-2, BTL- HOT, Analyse]
8. Briefly explain the main steps involved in the capital budgeting process for long-term investment decisions. [CO2, Unit-2, BTL- LOT, Understand]
9. A project requires an initial investment of ₹ 1,00,000 and generates cash inflows of ₹ 30,000 per year for 5 years. Calculate the Net Present Value (NPV) at 10% discount rate. Should the project be accepted? Justify your answer. [CO2, Unit-II, BTL- LOT, Apply]
10. What is cash flow estimation? Explain the principles and difficulties involved in estimating cash flows for capital budgeting decisions. [CO2, Unit-II, BTL- LOT, Understand]

11. A project requires an initial investment of ₹1,00,000 and generates the following cash inflows of Years 2020 = ₹30,000, Year 2021 = ₹40,000, Year 2022 = ₹50,000, Year 2024 = ₹20,000.

a. Calculate the Profitability Index at 10% discount rate
b. Should the project be accepted? **[**CO2, Unit-II, BTL-HOT, Apply]

12. Explain and compare the Net Present Value (NPV) and Internal Rate of Return (IRR) methods. Discuss situations where they may give conflicting results. [CO2, Unit-II, BTL-LOT, Understand]

Section B (20 marks)

13. Evaluate Average Rate of Return of project MNC from the following particulars:

Initial Cash Outlay for assets Rs.2,25,000.

Working capital required Rs.25,000

Scrap value of assets after 5 years Rs.25,000

Cash flow before tax :- Year 1st Rs.80,000; Year 2nd Rs.1,00,000; Year 3rd Rs.1,60,000 Year 4th Rs.1,60,000 Year 5th Rs.50,000. Tax rate is 50%. Depreciation is charged on SLM. [CO2, Unit-II, BTL-HOT, Evaluate]

14. "Critically analyze the major theories of capital structure, evaluating their underlying assumptions, relevance, and limitations. How do these theories differ in explaining the relationship between capital structure and firm value?" [CO2, Unit-II, BTL-HOT, Analyse]

15. The initial cash outlay of a project is 1,00,000. It can generate cash inflow of 40,000, ₹30,000, ₹50,000 and 20,000 in 1 through 4 years. Assuming a 10% rate of discount, find out the Pl of the project. The discount rate of 1 is as follows: 1st year = 1 = 0.909; 2nd year = 1 = 0.826; 3rd year = 1 = 0.751; 4th year = 1 = 0.683. [CO2, Unit-II, BTL-HOT, Analyse]

UNIT III

Section A (10 marks)

16. Classify the determinants of Capital Structure and assumption of capital structure. [CO3, Unit-III, BTL, HOT, Analyse]

17. Illustrate the Theories of Capital Structure & Compare the term Net Income approach & Net operating income approach with suitable diagram. [CO3, Unit-III, BTL, LOT, Apply]

18. Calculate from the following particulars relating to the capital structure of Bee Ltd, calculate the overall cost of capital, using i) Book value weights ii) Market Value weights. [CO3, Unit-III, BTL, LOT, Apply]

Sources of funds	Book Value (Rs.)	Market Value (Rs.)	After tax (%)
Equity share capital	45,000	90,000	14
Preference Capital	10,000	10,000	10
Debentures	30,000	30,000	8
Retained Earnings	15,000	-----	13

19. Develop a comprehensive analysis **o**f optimal capital structure, considering cost of capital, risk, and firm value. [CO3, Unit-III, BTL, HOT, Create]

20. Critically evaluate the Modigliani-Miller (MM) theory of capital structure, including its assumptions and limitations. [CO3, Unit-III, BTL, HOT, Evaluate]

21. Explain the concept of operating leverage. How does it affect business risk? [CO3, Unit-III, BTL, HOT, Apply]

22. Dell Ltd. Has EBIT of Rs. 1,00,000. The company makes use of debt and equity capital. The company has 10% debentures of Rs. 5,00,000 and the company's equity capitalization rate is 15%. You are required to Analyse: (a) Total value of the company. (b) Overall cost of capital. [CO3, Unit-III, BTL, HOT, Analyse]

23. The following are the details:

	Company A	Company B
Sales	10,00,000	6,00,000
Variable Cost	4,00,000	2,40,000
Fixed Cost	2,40,000	1,80,000
Interest	1,00,000	1,00,000

Evaluate the following:

a) Degree of operating leverage, financial leverage and combined leverage of both the firms.

b) Comment on the risk position. [CO3, Unit-III, BTL-HOT, Evaluate]

24. Distinguish between MM Hypothesis and Traditional approach of Capital Structure & suggest which of them is better. [CO3, Unit-3, BTL- HOT, Analyse]

Section B (20 marks)

25. A company plans to issue 10,000 new shares of Rs. 100 each at a par. The floatation costs are expected to be 4% of the share price. The company pays a dividend of Rs. 12 per share initially and growth in dividends is expected to be 5%.
a) Compute the cost of new issue of equity shares.
b) If the current market price of an equity share is Rs. 120.
Calculate the cost of existing equity share capital. CO3, Unit-III, BTL, HOT, Analysis]

26. Calculate from the following particulars relating to the capital structure of Bee Ltd, calculate the overall cost of capital, using i) Book value weights ii) Market Value weights. [CO3, Unit-III, BTL, HOT, Analysis]

Sources of funds	Book Value (Rs.)	Market Value (Rs.)	After tax (%)
Equity share capital	45,000	90,000	14
Preference Capital	10,000	10,000	10
Debentures	30,000	30,000	8
Retained Earnings	15,000	-----	13

27. A company has the following cost structure:

(a) Selling Price per unit = ₹100
(b) Variable Cost per unit = ₹60
(c) Fixed Cost = ₹3,00,000
(d) Interest = ₹1,00,000
(e) Units Sold = 20,000

Required:

(i) Evaluate Operating, Financial, and Combined Leverage.
(ii) If sales increase by 20%, estimate the percentage change in EBIT and EPS using leverage concepts. [CO3, Unit-III, BTL-HOT, Evaluate]

UNIT IV

Section A (10 marks)

28. Critically evaluate the Walter's model and Gordon's model of dividend policy. [CO4, Unit-IV, BTL, HOT, Evaluate]

29. Explain the Walter's model of dividend policy & Assumptions of Walter model. [CO4, Unit-IV, BTL, HOT, Analyse]

30. A company is considering between paying cash dividends and stock dividends. Explain the advantages and disadvantages of each and provide a recommendation. [CO4, Unit-IV, BTL, HOT, Analyse]

31. Discuss the theories for Relevance and irrelevance of dividend decision. [CO4, Unit-IV, BTL, LOT, Understand]

32. Describe the term Dividend Policies & how dividend policies affect the business practices? [CO4, Unit-IV, BTL, LOT, Understand]

Section B (20 marks)

33. Analyze the situation using Walter's Model and Gordon's Model. What dividend policy should the company adopt to maximize shareholder wealth? [CO4, Unit-IV, BTL, HOT, Analyse]

34. Compare and contrast the MM theory of dividend irrelevance with relevant dividend theories like Walter's and Gordon's models. [CO4, Unit-IV, BTL-HOT, Analyse]

35. The following figures are collected from the annual report of Star Ltd.

Net Profit Rs. 30 Lakhs

12% Preference Share Rs. 100 Lakhs

No. of Equity Shares 3 Lakhs

Return on Investment 20%

Cost of Capital (Ke) 16%

Evaluate price per share using Gordon's Model when dividend pay-out ratio is: -

(i)25% (ii) 50% (iii) 100%. [CO4, Unit-IV, BTL-HOT, Evaluate]

Summary:

CO Wise:

CO	Ques. No	Marks
CO1	1,2,3,4,5,6	80
CO2	7,8,9,10,11,12,13,14,15	120
CO3	16,17,18,19,20,21,22,23,24,25,26,27	150
CO4	28,29,30,31,32,33,34,35	110

Unit Wise:

Unit	Ques. No	Marks
I	1,2,3,4,5,6	80
II	7,8,9,10,11,12,13,14,15	120
III	16,17,18,19,20,21,22,23,24,25,26,27	150
IV	28,29,30,31,32,33,34,35	110

Blooms Taxonomy Level (BTL) Wise

BTL	Ques No	Marks
LOT	8,9,10,12,17,18,31,32	80
HOT	1,2,3,4,5,6,7,11,13,14,15,16,19,20,21,22,23,24,25,26,27,28,29,30,33,34,35	380

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