THIRD SEMESTER B.COM. (REVISED NEP) DEGREE
EXAMINATION, JANUARY 2026

COMMERCE (DSC – 2)

Fundamentals of Financial Management

Time : 3 Hours] [Max. Marks : 80

Instructions : *1) Answer the questions according to **internal** choice.*
*2) Only simple calculator is **allowed**.*

SECTION – A

Answer **all** the following questions. **(10×2=20)**

1. What is Financial Management ?

2. What is Time Value of Money ?

3. Name any two short term sources of Finance.

4. Calculate the combined leverage if Operating leverage is 2.5 and Financial leverage is 1.5.

5. Expand :

   a) NPV and

   b) IRR.

6. What is profitability index ?

7. What is Negative Working Capital ?

8. What do you mean by operating cycle ?

9. Write the meaning of Dividend.

10. What is Variable Payout Ratio ?

SECTION – B

Answer **any three** of the following questions. **(3×5=15)**

11. Explain different types of working capital.

12. Explain the objectives of Dividend Policy.

13. Calculate the present value of the following cash flows assuming a discount rate of 8%.

Year	Cash flows (₹)	Present value factor @ 8% discount rate
1	20,000	0.926
2	24,000	0.857
3	12,000	0.794
4	8,000	0.735
5	6,000	0.681

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

Sales units 50,000

Selling price per unit ₹ 10

Variable cost per unit ₹ 5

Fixed cost ₹ 1,00,000

10% Debentures ₹ 5,00,000

Tax bracket 35%.

15. A project cost ₹ 12,00,000 and yields annual cash flows as follows for 5 years.

Year	Cash flows (₹)
1	3,00,000
2	2,50,000
3	2,80,000
4	2,60,000
5	2,00,000

Compute Payback period.

SECTION – C

Answer **any three** from the following questions. **(3×15=45)**

16. Define Financial Management. Explain the functions of Financial Management.

17. Explain the determinants of Dividend Decision Policy.

18. Prakruti Co. Ltd., wants to set up a new factory at Hubli at an investment of ₹ 50,00,000. The new factory is expected to yield EBIT ₹ 10,00,000, for maximising its EPS, the company is considering the following alternative financial proposals :
   a) All in equity shares of ₹ 100 each.
   b) ₹ 30,00,000 in 8% Debentures and remaining in equity shares of ₹ 100 each.
   c) ₹ 20,00,000 in 12% Debentures and ₹ 20,00,000 in 8% preference shares and remaining in equity shares of ₹ 100 each.
   d) ₹ 25,00,000 in 10% preference shares and remaining in equity shares of ₹ 100 each.

   The company is in 35% Tax Bracket.

   As a finance manager which financial proposal do you recommend ? Why ?

19. From the following information calculate the Net Present Value of the two projects at a discount rate of 10%. Suggest which project is profitable ?

Particulars	**Project 'X'**	**Project 'Y'**
Initial Investment	₹ 40,00,000	₹ 40,00,000
Estimated Life	5 years	5 years
Scrap value (in Rupees)	10,000	20,000
Cash inflows	**(₹)**	**(₹)**
I year	40,000	40,000
II year	1,20,000	1,00,000
III year	1,60,000	1,20,000
IV year	1,00,000	1,20,000
V year	80,000	1,00,000

Present value Re. 1 for 5 years @ 10% discount rate.

Year	I year	II year	III year	IV year	V year
Present value factor at 10%	0.909	0.826	0.751	0.683	0.621

20. The cost sheet of PQR Ltd. provides the following data :

Particulars	Cost per Unit (₹)
Raw material	50
Direct Labour	20
Overhead (including depreciation of ₹ 10)	40
Total cost	**110**
Profits	20
Selling price	**130**

a) Average raw material in stock is for one month.

b) Average material in work-in-progress is for half month.

c) Credit allowed by suppliers – one month.

d) Credit allowed to debtors – one month.

e) Average time lag in payment of wages – 10 days.

f) Average time lag in payment of overheads – 30 days

g) 25% of the sales are on cash basis.

h) Cash balance expected to be ₹ 1,00,000.

i) Finished goods remains in the warehouse for one month.

You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output.

Production is carried on evenly throughout the year and wages and overheads accrue similarly.

Allow 10% for contingencies.