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# PRESIDENCY UNIVERSITY

Presidency University Act, 2013 of the Karnataka Act No. 41 of 2013 | Established under Section 2(f) of UGC Act, 1956  
Approved by AICTE, New Delhi | Approved By BCI  
Bengaluru

## Even Semester Mid Term, March 2026

**Date: 10/03/2026**

**Time: 11:45 AM - 01:15 PM**

**Course Code: CBS1027**

**Course Name: Financial Management**

**Semester: Second Semester**

**Max. Marks: 50**

**Weightage: 50%**

CO - Levels	CO1	CO2
Marks	36	54

### PART-A: Answer Following Questions. 10 M

Qn.No	Questions	M	CO	BT
1	Anoop firm's finance head states that financial management is both a functional area and a decision-making discipline. Identify two core decision areas that justify this statement.	2	CO1	BT1
2	Define Agency Theory.	2	CO1	BT1
3	Amir's firm evaluates long-term projects such as plant expansion and new product development. Identify the type of financial decision involved in this decision.	2	CO1	BT1
4	Sunrise Engineering Ltd. is considering a project with an initial investment of ₹30,000. The project is expected to generate uniform annual cash inflows of ₹10,000 for a period of 5 years. Calculate the Payback Period of the project.	2	CO2	BT2
5	Vijaya Auto Components Ltd., a manufacturing firm, reports the following operating details: <ul style="list-style-type: none"> <li>· Raw material holding period - 25 days</li> <li>· Work-in-progress period - 10 days</li> <li>· Finished goods holding period - 20 days</li> <li>· Debtors collection period - 30 days</li> <li>· Creditors' payment period - 15 days</li> </ul> <p>You are required to compute the Operating Cycle of Vijaya Auto Components Ltd.</p>	2	CO2	BT2

**PART-B: Answer Any 1 Following Questions. 10 M**

Qn.No	Questions	M	CO	BT										
6	<p>1. NovaTech Engineering Ltd. is planning to invest ₹8,00,000 in new machinery with a useful life of 4 years. The estimated annual net cash inflows are as follows:</p> <table border="1" data-bbox="209 322 1230 580"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td>Cash Inflows (₹)</td> <td>2,00,000</td> <td>2,50,000</td> <td>3,00,000</td> <td>2,50,000</td> </tr> </tbody> </table> <p><b>Required:</b></p> <p>(a) Calculate the Internal Rate of Return (IRR) of the project.            (b) Use 10% and 14% as trial discount rates.            (c) State whether the project should be accepted if the required rate of return is 12%.</p>	Year	1	2	3	4	Cash Inflows (₹)	2,00,000	2,50,000	3,00,000	2,50,000	10	CO2	BT3
Year	1	2	3	4										
Cash Inflows (₹)	2,00,000	2,50,000	3,00,000	2,50,000										
7	<p>Zenith Precision Manufacturing Ltd. is preparing its working capital estimate for the coming year and provides the following information:</p> <p>Estimated Production and Cost Details:</p> <ul style="list-style-type: none"> <li>• Annual Production: 60,000 units</li> <li>• Cost per Unit:               <ul style="list-style-type: none"> <li>◦ Raw Materials: ₹10</li> <li>◦ Labour: ₹6</li> <li>◦ Overheads: ₹4</li> </ul> </li> </ul> <p>Additional Information:</p> <ul style="list-style-type: none"> <li>• Raw materials remain in store for 5 weeks before being issued to production.</li> <li>• The production process takes 3 weeks.               <ul style="list-style-type: none"> <li>◦ Materials are introduced at the beginning of production.</li> <li>◦ Labour and overheads accrue evenly (assume 50% completion for conversion costs in WIP).</li> </ul> </li> <li>• Finished goods are held in stock for 4 weeks before sale.</li> <li>• Customers are allowed 6 weeks of credit.</li> <li>• Suppliers allow 4 weeks of credit for raw materials.</li> <li>• Wages are paid with a time lag of 1 week, and overheads with a time lag of 2 weeks.</li> <li>• The company desires to maintain a minimum cash balance of ₹60,000.</li> <li>• Assume 52 weeks in a year.</li> <li>• Add 5% contingency to the total working capital requirement.</li> </ul> <p>Required:</p>	10	CO2	BT3										

Prepare a statement showing the estimated working capital requirement of Zenith Precision Manufacturing Ltd. Clearly show all workings and calculations.

**PART-C: Answer Any 1 Following Questions. 10 M**

Qn.No	Questions	M	CO	BT																								
8	<p><b>Galaxy Industrial Ltd.</b> is evaluating five independent investment projects. The following information is available:</p> <table border="1"> <thead> <tr> <th>Project</th> <th>Original Investment (₹)</th> <th>Annual Cash Inflow (₹)</th> <th>Economic Life (Years)</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>25,000</td> <td>3,000</td> <td>10</td> </tr> <tr> <td>B</td> <td>3,000</td> <td>1,000</td> <td>5</td> </tr> <tr> <td>C</td> <td>12,000</td> <td>2,000</td> <td>8</td> </tr> <tr> <td>D</td> <td>20,000</td> <td>4,000</td> <td>10</td> </tr> <tr> <td>E</td> <td>40,000</td> <td>8,000</td> <td>2</td> </tr> </tbody> </table> <p><b>Required:</b></p> <p>(a) Calculate the Payback Period (PBP) for each project.</p> <p>(b) Calculate the Accounting Rate of Return (ARR) for each project.</p> <p>(c) Rank the projects based on both PBP and ARR criteria.</p>	Project	Original Investment (₹)	Annual Cash Inflow (₹)	Economic Life (Years)	A	25,000	3,000	10	B	3,000	1,000	5	C	12,000	2,000	8	D	20,000	4,000	10	E	40,000	8,000	2	10	CO2	BT4
Project	Original Investment (₹)	Annual Cash Inflow (₹)	Economic Life (Years)																									
A	25,000	3,000	10																									
B	3,000	1,000	5																									
C	12,000	2,000	8																									
D	20,000	4,000	10																									
E	40,000	8,000	2																									
9	Identify various stakeholders of a company and analyse how their interests may conflict with corporate objectives.	10	CO1	BT3																								

**PART-D: Answer Any 1 Following Questions. 10 M**

Qn.No	Questions	M	CO	BT
10	Commercial banks actively participate in money market transactions. Examine how banks facilitate smooth functioning of money markets.	10	CO1	BT3
11	NovaTech Industrial Ltd. is evaluating two mutually exclusive projects, Project X and Project Y. Each project requires an initial investment of ₹5,00,000. The expected annual cash inflows are uneven and estimated as follows:	10	CO2	BT3

Year	Project X (₹)	Project Y (₹)
1	90,000	2,20,000
2	1,10,000	1,80,000
3	1,60,000	1,20,000
4	1,80,000	90,000
5	2,00,000	70,000

**Required:**

- (a) Calculate the Payback Period for both Project X and Project Y.  
 (b) Identify which project should be preferred under the Payback criterion.  
 (c) Briefly explain how the timing of cash inflows influences the Payback decision.

**PART-E: Answer Any 1 Following Questions. 10 M**

Qn.No	Questions	M	CO	BT									
12	Discuss the importance of Corporate Governance in achieving financial objectives.	10	CO1	BT2									
13	From the following information, calculate the Net Present Value (NPV) and suggest which of the two projects should be accepted, assuming a discount rate of 12%.	10	CO2	BT3									
	<table border="1"> <thead> <tr> <th>Particulars</th> <th>Project A</th> <th>Project B</th> </tr> </thead> <tbody> <tr> <td>Initial Investment</td> <td>₹ 50,000</td> <td>₹ 70,000</td> </tr> <tr> <td>Estimated Life</td> <td>5 years</td> <td>5 years</td> </tr> </tbody> </table>	Particulars	Project A	Project B	Initial Investment	₹ 50,000	₹ 70,000	Estimated Life	5 years	5 years			
Particulars	Project A	Project B											
Initial Investment	₹ 50,000	₹ 70,000											
Estimated Life	5 years	5 years											

Scrap Value

₹ 3,000

₹ 5,000

The profits before depreciation and after taxes are as follows:

Year	Project A (₹)	Project B (₹)
1	15,000	35,000
2	18,000	25,000
3	20,000	15,000
4	12,000	10,000
5	10,000	8,000

Depreciation is to be charged on a straight-line basis over 5 years.

**Required:**

- Calculate the NPV of both projects.
- Which project should be selected? Give reasons.
- Briefly explain why NPV is considered superior to traditional methods.