Roll No										

PRESIDENCY UNIVERSITY

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Presidency University Act, 2013 of the Karnataka Act No. 41 of 2013 | Established under Section 2(f) of UGC Act, 1956
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Bengaluru

Even Semester End Term Examination, May / June 2026

Date: 19/05/2026 **Time: 09.30 AM - 12.30 PM**

Course Code: CBS1027	**Course Name: Financial Management**	
Semester: Second Semester	**Max. Marks: 100**	**Weightage: 50%**

CO - Levels	**CO1**	**CO2**	**CO3**	**CO4**	**CO5**
Marks	**36**	**36**	**36**	**36**	**36**

Part A: Answer Following Questions. 20 M

Qn.No	**Questions**	**M**	**CO**	**BT**
1	State any two objectives of financial management.	2	CO1	BT1
2	Define Financial Management.	2	CO1	BT1
3	Initial Investment is Rs.12,00,000, scrap value is Rs.2,00,000, working life of an asset is 5 years, and Additional working capital is Rs.1,00,000. Calculate Average Investment.	2	CO2	BT3
4	From the following data, calculate the Operating Cycle of Infosys Ltd. • Raw material holding period = 18 days • Work-in-progress period = 12 days • Finished goods holding period = 22 days • Debtors collection period = 28 days Creditors payment period = 14 days	2	CO2	BT3
5	Reliance Industries Ltd. issues ₹12,00,000, 10% debentures at a premium of 8%. The cost of floatation is 3%. The tax rate applicable is 40%. Compute the cost of debt capital.	2	CO3	BT3
6	Ravi Ltd. issues 20,000, 8% preference shares of Rs. 100 each. Cost of issue is Rs. 2 per share. Calculate cost of preference share capital if these shares are issued at a premium of 10%	2	CO3	BT3
7	LMN Ltd. is assessing the value of its equity shares based on replacement cost. The current replacement cost of its total assets is ₹22,00,000, and its external liabilities amount to ₹9,00,000. The company has issued 65,000 equity shares. Calculate the Replacement Value per Share.	2	CO4	BT3
8	A company has an Earnings Per Share (EPS) of ₹8. The industry average P/E ratio is 12. Calculate the value of the share.	2	CO4	BT3

9	Identify transaction risk in foreign exchange exposure.	2	CO5	BT1
10	Define Hedging.	2	CO5	BT1

Part B: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
11.a	Explain the importance of financial management in maximizing firm value and ensuring financial stability.	6	CO1	BT2
11.b	Critically analyze stakeholder conflicts and agency problems in modern corporations	10	CO1	BT4
12.a	Explain the conflict between profit maximization and shareholder wealth maximization	6	CO1	BT2
12.b	Explain the role of financial markets and institutions in economic growth.	10	CO1	BT2

Part C: Answer Any 1 Following Questions. 16 M

<table>
<tr><th>Qn.No</th><th>Questions</th><th>M</th><th>CO</th><th>BT</th></tr>
<tr><td>13.a</td><td>A company is evaluating a project with the following possible cash inflows:
<table>
<tr><th>Annual Cash Inflow (₹)</th><th>Probability</th></tr>
<tr><td>60,000</td><td>0.2</td></tr>
<tr><td>80,000</td><td>0.5</td></tr>
<tr><td>1,00,000</td><td>0.3</td></tr>
</table>
Initial Investment = ₹2,40,000, Project Life = 4 years, PVAF (10%, 4 years) = 3.17. You are required to calculate -
1. Calculate the Expected Annual Cash Inflow.
2. Compute the Expected NPV.
3. State whether the project should be accepted.</td><td>6</td><td>CO2</td><td>BT3</td></tr>
<tr><td>13.b</td><td>A firm is considering a project with the following outcomes
<table>
<tr><th>Cash Flow (₹)</th><th>Probability</th></tr>
<tr><td>40,000</td><td>0.3</td></tr>
<tr><td>70,000</td><td>0.4</td></tr>
<tr><td>1,00,000</td><td>0.3</td></tr>
</table>
1.Calculate the Expected Cash Flow.
2.Compute the Standard Deviation. Find the Coefficient of Variation (CV).</td><td>10</td><td>CO2</td><td>BT3</td></tr>
</table>

14.a	A company is evaluating a project with an initial outlay of ₹3,20,000. Annual sales revenue is expected to be ₹1,50,000, with variable costs equal to 40% of sales and fixed costs of ₹45,000 per year. The project lasts 4 years. PVAF (11%, 4 years) = 3.102 a) Calculate the annual net cash inflow. b) Find the NPV. c) Analyze the sensitivity of the project if variable costs increase by 20%.	6	CO2	BT4
14.b	A manufacturing company provides the following estimates for the next year: •Annual production: 60,000 units •Cost per unit: •Raw Materials = ₹6 •Labour = ₹4 •Overheads = ₹2 Total Cost = ₹12 per unit •Selling price = ₹15 per unit •Raw material storage period = 5 weeks •Work-in-progress period = 2 weeks (assume 100% material and 50% labour & overheads) •Finished goods storage period = 4 weeks •Credit allowed to debtors = 6 weeks •Credit received from suppliers = 4 weeks •Lag in wage payment = 2 weeks •Lag in overhead payment = 1 week •Assume 52 weeks in a year •Keep 10% as contingency reserve Prepare a statement of working capital requirement.	10	CO2	BT3

Part D: Answer Any 1 Following Questions. 16 M				
Qn.No	**Questions**	**M**	**CO**	**BT**
15.a	Indra Ltd. has an EBIT of 1,00,000. The company makes use of both the debt and equity capital. The firm has 10% debentures of ` 5,00,000 and the firm’s equity capitalization rate is 15%. You are required to Compute:	6	CO3	BT3

	(i) Total value of the firm (ii) Overall cost of capital.			
15.b	Apex Logistics Ltd., a rapidly growing supply chain company, is planning to expand its operations by investing in a new distribution hub. The management wants to estimate the firm's Weighted Average Cost of Capital (WACC) to evaluate the viability of the expansion project. The finance team has gathered the following data regarding the company's capital structure:	10	CO3	BT4

Source	Book Value (₹)	Market Value (₹)	Cost (%)
Debt	6,00,000	5,40,000	7
Preference Shares	1,50,000	1,80,000	10
Equity Shares	7,50,000	10,50,000	15
Retained Earnings	2,00,000	3,30,000	13

1)Calculate WACC using Book Value weights

2) Calculate WACC usingMarket Value weights Analyse the difference and suggest the appropriate method for decision-making

16.a	There are two company's ABC Ltd. and PQR Ltd., having the same Net Operating Income (NOI) of ₹30,000, except that PQR Ltd. is a levered company having a debt of ₹1,50,000 at 8% interest. The cost of equity of ABC Ltd. and PQR Ltd. are 12% and 20% respectively. Explain how the arbitrage process will work and show whether an investor can benefit from switching between the two firms.	6	CO3	BT3
16.b	Following data relates to two firms having identical business risk: Capital Employed = ₹4,00,000, EBIT = ₹60,000, Cost of Equity (Ke) = 12%	10	CO3	BT3

Sources	Levered Company (₹)	Unlevered Company (₹)
Debt @10%	2,00,000	Nil
Equity	2,00,000	4,00,000

An investor holds 25% equity shares in the levered company.

Calculate the change in annual earnings if he switches to the unlevered company using arbitrage.

Part E: Answer Any 1 Following Questions. 16 M

Qn.No	Questions	M	CO	BT
17.a	Explain the valuation reasons of financial assets which helps investors in making investment decisions.	6	CO4	BT2
17.b	Evaluate how growth assumptions influence share valuation under the Dividend Growth Model.	10	CO4	BT4

18.a	Explain the limitations of information impact the reliability of valuation outcomes of investors.	6	CO4	BT2
18.b	Evaluate the importance of redemption and conversion features in determining the value of debt.	10	CO4	BT4

Part F: Answer Any 1 Following Questions. 16 M				
Qn.No	**Questions**	**M**	**CO**	**BT**
19.a	A company finances its operations using floating rate loans. Explain how interest rate risk impacts the firm and how it can mitigate this risk.	6	CO5	BT2
19.b	Examine the impact of economic risk on a firm’s long-term strategic decisions and competitiveness.	10	CO5	BT2
20.a	Explain the advantages and limitations of money market hedging versus forward contracts in managing foreign exchange risk.	6	CO5	BT2
20.b	Examine the factors causing exchange rate fluctuations in interest rate parity.	10	CO5	BT2