



*J. Sambal*

## Avinashilingam Institute for Home Science and Higher Education for Women

Deemed to be University Estd. u/s 3 of UGC Act 1956, Category A by MHRD (now MoE)

Re-accredited with A++ Grade by NAAC. CGPA 3.65/4, Category I by UGC

Coimbatore - 641043, Tamil Nadu, India

### Bachelor's Degree Examination - November 2025 III Semester

**Class : II UG**  
**Major : BBA**

**Time : 3 Hours**  
**Max. Marks : 100**

#### 24BBAC07 Financial Management

#### Course Outcomes:

- CO1: Analyze and evaluate the financial system and financial environment of the organization  
CO2: Assess the capital structure of the organization and evaluate the profitability condition  
CO3: Apply the techniques of capital budgeting for selecting best investment opportunities  
CO4 : Understand the basic concept and importance of Management of Current Assets in an Organization.

#### Part A

10 x 1 = 10

#### Choose the Correct Answer

- Which of the following is the primary objective of financial management under the modern approach? CO1K1
  - Sales maximization
  - Profit maximization
  - Wealth maximization
  - Cost minimization
- The concept that a rupee today is worth more than a rupee in the future is known as: CO2K2
  - Capital budgeting
  - Time value of money
  - Financial leverage
  - Opportunity cost
- Working capital is best defined as \_\_\_\_\_. CO1K1
  - Fixed assets minus fixed liabilities
  - Current assets minus current liabilities
  - Total assets minus total liabilities
  - Cash and bank balance only
- Which of the following is not a principle governing financial planning? CO1K1
  - Simplicity
  - Flexibility
  - Complexity
  - Liquidity
- The cost of capital is best described as \_\_\_\_\_. CO1K1
  - The rate of return earned on government securities
  - The minimum required rate of return expected by investors
  - The cost of borrowing from banks only
  - The dividend payout ratio
- Which type of leverage measures the effect of fixed operating costs on a firm's earnings before interest and tax (EBIT)? CO2K2
  - Financial leverage
  - Operating leverage
  - Combined leverage
  - Marginal leverage
- Which of the following best describes capital structure? CO2K2
  - The composition of current assets and current liabilities
  - The mix of long-term debt and equity used to finance a firm's assets
  - The allocation of profits between dividends and retained earnings
  - The total funds required for working capital
- According to the Net Income (NI) approach, the value of the firm \_\_\_\_\_. CO3K3
  - Is unaffected by changes in capital structure
  - Increases with a higher proportion of debt
  - Decreases with a higher proportion of debt
  - Depends solely on the equity capital
- Which capital budgeting method considers the time value of money? CO2K2
  - Payback Period
  - Average Rate of Return
  - Net Present Value
  - Accounting Rate of Return
- The Profitability Index (PI) is calculated as CO2K2

**Part B****5 x 6 = 30****Answer ALL questions****Each answer should not exceed 400 words or two pages**

- 11.a. Explain the differences between profit maximization and wealth maximization as objectives of financial management. CO2K2  
(or)
- 11.b. Briefly describe the roles of a finance manager in an organization. CO2K2
- 12.a. Explain the difference between fixed capital and working capital with examples. CO1K1  
(or)
- 12.b. Describe any three principles that govern financial planning. CO2K2
- 13.a. D. Ltd issues Rs.2,00,000, 9% debentures at a premium of 10%. The floatation costs are 2%. The tax rate applicable is 60%. Compute cost of debt capital. CO3K3  
(or)
- 13.b. Differentiate between financial leverage and operating leverage. CO3K3
- 14.a. Differentiate between financial structure and capital structure with examples. CO4K4  
(or)
- 14.b. Briefly explain the concept of optimum capital structure. CO1K1
- 15.a. List and briefly explain the factors affecting capital investment decisions. CO4K4  
(or)
- 15.b. A project costs Rs.50,000 and generates cash inflows of Rs.10,000, Rs.15,000, Rs.20,000, Rs.15,000, and Rs.10,000 over 5 years. Calculate the Payback Period. CO5K5

**Part C****5 x 12 = 60****Answer ALL questions****Each answer should not exceed 800 words or four pages**

- 16.a. Define financial management. Discuss its scope and importance in modern business. CO1K1  
(or)
- 16.b. Explain the concept of Time Value of Money. How does it influence financial decision-making? Illustrate with examples. CO4K4
- 17.a. Define working capital. Discuss its need, types, and factors influencing its requirement in a business. CO4K4  
(or)
- 17.b. Explain the process of estimating capital requirements in an organization, highlighting the importance of accurate estimation. CO4K4
- 18.a. From the following capital structure of a company, calculate the overall cost of capital using book value weights. CO4K4
- | Sources                                 | Book value(Rs.) |
|---|-----------------|
| Equity share capital.<br>(Rs 10 shares) | 45000           |
| Retained earnings.                      | 15000           |
| Preference share capital.               | 10000           |
| Debentures.                             | 30000           |
- The after-tax cost of different sources of finance is as follows :  
Equity share capital: 14%; Retained earnings: 13%;  
Preference share capital: 10%; Debentures: 5%.  
(or)
- 18.b. Define leverage. Explain the meaning, types, and significance of financial leverage, operating leverage, and combined leverage with examples. CO3K3
- 19.a. Discuss the different theories of capital structure—Net Income (NI) approach, Net Operating Income (NOI) approach, Modigliani-Miller (MM) approach, and the Traditional approach (TA). CO3K3  
(or)
- 19.b. Explain the factors that determine a firm's capital structure. How can these factors influence financing decisions? CO4K4

20.a. Discuss the various capital budgeting appraisal methods, highlighting their merits and limitations.

CO4K4

(or)

20.b. A company is considering two projects with the following details:

CO4K4

Year	Project A(Rs.)	Project B(Rs.)
0	60000	60000
1	20000	25000
2	25000	20000
3	30000	20000
4	20000	20000

The cost of capital is 10%. Calculate for both projects:

Net Present Value (NPV)

Profitability Index (PI)

Internal Rate of Return (IRR) (using interpolation)

Suggest which project should be selected.

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