U.S.N.										

B.M.S. College of Engineering, Bengaluru-560019

Autonomous Institute Affiliated to VTU

May / June 2025 Semester End Main Examinations

Programme: B.E. | **Semester: VIII**
Branch: Institutional Elective | **Duration: 3 hrs.**
Course Code: 22ME8OEFIM / 20ME8OEFIM | **Max Marks: 100**
Course: Financial Management

Instructions: 1. Answer any FIVE full questions, choosing one full question from each unit.
2. Missing data, if any, may be suitably assumed.
3. Compound interest tables are permitted.

Important Note: Completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages. Revealing of identification, appeal to evaluator will be treated as malpractice.

<table>
<tr><th></th><th></th><th>UNIT - I</th><th>CO</th><th>PO</th><th>Marks</th></tr>
<tr><td>1</td><td>a)</td><td>Describe the various forms of business organization.</td><td>CO1</td><td>PO1</td><td>10</td></tr>
<tr><td></td><td>b)</td><td>A financial analyst is analyzing two investment alternatives Y and Z. Their rate of returns under different probabilities are as follows:
<table>
<tr><td>Probability</td><td colspan="2">Rate of Return</td></tr>
<tr><td></td><td>Y</td><td>Z</td></tr>
<tr><td>0.2</td><td>22%</td><td>5%</td></tr>
<tr><td>0.6</td><td>14%</td><td>15%</td></tr>
<tr><td>0.2</td><td>- 4%</td><td>25%</td></tr>
</table>
i) For Y and Z, determine the expected rate of return, variance and standard deviation
ii) Is Y comparatively less risky investment? Explain.
iii) If the financial analyst wishes to invest equal amounts of Y and Z, would it reduce risk? Explain.</td><td>CO1</td><td>PO1
PO2</td><td>10</td></tr>
<tr><td></td><td></td><td>OR</td><td></td><td></td><td></td></tr>
<tr><td>2</td><td>a)</td><td>An investor has analyzed a share for a one year holding period. The share is currently sold for Rs. 43 but pays no dividends and there is a fifty – fifty chance that the share will sell for either Rs. 55 or Rs. 60 by the year end. What is the expected return and risk if 250 shares are acquired with 80% borrowed funds? Assume the cost of the borrowed funds to be 12%. (Ignore commissions and taxes).</td><td>CO1</td><td>PO1
PO2</td><td>10</td></tr>
<tr><td></td><td>b)</td><td>List and explain the methods of measuring risk.</td><td>CO1</td><td>PO1</td><td>10</td></tr>
<tr><td></td><td></td><td>UNIT - II</td><td></td><td></td><td></td></tr>
<tr><td>3</td><td>a)</td><td>Discuss the need and factors influencing the working capital requirement.</td><td>CO2</td><td>PO1</td><td>10</td></tr>
</table>

b) From the following information of a manufacturing concerns compute the operating cycle in days. — CO2 | PO1, PO2 | **06**

Period covered	365 days
Average period of Cr. allowed by suppliers	16 days
Average debtor's o/s	Rs. 480
Raw material consumption	Rs. 4,400
Total production cost	Rs. 10, 000
Total cost of goods sold	Rs. 10, 500
Sales for the year	Rs. 16, 000
Value of average stock maintained:	
Raw Material	320
WIP	350
Finished goods	260

c) Highlight the merits and demerits of equity shares. — CO3 | PO1 | **04**

OR

4 a) A firm is thinking of a right issue to raise Rs. 5 crore. It has a 5 lakh shares outstanding and the current market price of the share is Rs. 170. The subscription price on the new share will be Rs. 125 per share. — CO3 | PO1, PO2 | **06**

i. How many shares should be sold to raise the required funds?
ii. How many rights are needed to purchase one new share?
iii. What is the value of one right?

b) Assume that the Engineering firm has chosen the moderate working capital policy (that is, investment of Rs. 3. 90 crores in current assets). The company is now examining the use of long term and short-term borrowing for financing its assets. The company will use Rs. 2.50 crore of equity funds, fixed assets of Rs. 2.6 crore and current liabilities of Rs. 2.34 crore. The corporate tax rate is 35%. The company is considering the following debt alternatives: — CO2 | PO1, PO2 | **08**

Financing policy	Short – term debt (Rs. in cr.)	Long term debt (Rs. in cr.)
Conservative	0.54	1.12
Moderate	1	0.66
Aggressive	1.5	0.16

The average effective interest rate on short – term debt is 12% while on long – term debt it is 16%. Determine the following for each of the financial policies;

i) Rate of return on shareholder's equity
ii) Net working capital position, and
iii) Current ratio.

Also, evaluate the return-risk tradeoffs of these policies.

c) Discuss the different types of debentures. — CO3 | PO1 | **06**

			UNIT - III			
	5	a)	Discuss the different types of accounts and the rules governing it.	*CO4*	*PO1*	**06**
		b)	The following balances are extracted from the books of M/s. Maria Waseem, Prepare Trial Balance as on 30.6.2015. Owner's Equity Rs. 470,200 Machinery Rs. 158,800 Cash in hand Rs. 6,000 Account receivable Rs. 48,000 Building Rs. 320,000 Repairs Rs. 5,400 Stock Rs. 33,000 Insurance premium Rs. 3,300 Account payable Rs. 26,000 Sales Rs. 290,000 Commission Rs. 750 Telephone charges Rs. 6,450 Rent & Taxes Rs. 6,300 Furniture Rs. 11,000 Purchases Rs. 165,000 Discount earned Rs. 1,100 Loan from Sidra Rs. 51,000 Salaries Rs. 70,600 Reserve fund Rs. 5,900 Discount allowed Rs. 650 Note receivable Rs. 8,600 Drawings Rs. 5,000 Bad debts Rs. 1,350 Bills payable Rs. 6,000	*CO4*	*PO1* *PO2*	**08**
		c)	Pass the necessary journal entries related to the following transactions in the book of R.K. Pvt. Ltd. (i) On 1 April 2023, purchased goods for cash ₹40,000 and paid ₹2,000 for their carriage. (ii) On 11 April 2023, Amar who owned ₹20,000 declared insolvent. (iii) On 16 April 2023, Machinery bought for ₹5,00,000 and paid ₹25,000 for its installation. (iv) On 19 April 2023, further paid ₹5,000 on the carriage of the machine bought. (v) On 24 April 2023, purchased bricks and timber for ₹10,00,000 for construction of the building and made payment through cheque. (vi) On 29 April 2023, Amar who was earlier declared insolvent paid 30 paise in Rupee.	*CO4*	*PO1* *PO2*	**06**
			OR			

6		From the following Trial Balance of Gopinath prepare Trading and Profit and Loss Account for the year ended December 31, 1986 and Balance Sheet as on that date.	*CO4*	*PO1* *PO2*	**20**

Name of the account	Dr. balances Rs.	Cr. balances Rs.
Capital		27, 000
Drawings	4, 260	
Furniture	5, 700	
Stock on January 1, 1987	8, 760	
Purchases and Sales	62,172	71, 436
Returns	1,260	1,746
Salaries	2, 640	
Rent	720	
Carriage	1, 500	
Rates and Taxes	1, 200	
Apprentice Premium		750
Bank Overdraft		1, 200
Bad Debts	1, 032	
Sundry Debtors	19, 200	
Cash in hand	288	
Sundry Creditors		6, 000
Provision for Bad Debts		600
Bills Receivable	1, 440	
Bills Payable		1, 080
Discount		360
	1, 10, 172	1, 10, 172

You are required to consider the following adjustments:
1 Stock on December 31, 1986 was valued at Rs. 10,200.
2 Provide for doubtful debts at 5% on Sundry Debtors and for Discount on Creditors at 2%.
3 Rent due was Rs. 160.
4 Taxes of Rs. 320 were paid in advance.
5 Depreciate Furniture at 10% per annum.
6 Apprentice Premium of Rs. 120 was to be carried forward.
7 Calculate interest on capital at 5% per annum.

UNIT - IV

7	a)	How are costs classified? Give its characteristics.	*CO5*	*PO1*	**05**
	b)	From the following information prepare a statement showing (i) Prime cost (ii) Works cost (iii) Cost of Production (iv) Cost of Sales (v) Net profit of X Ltd. which produced and sold 1000 units in June 2019.	*CO5*	*PO1* *PO2*	**10**

	Rs.
Opening Stock:	
Raw Materials	24,000

<table>
<tr><td></td><td></td><td></td><td>Finished goods 16,000

Closing stock:
Raw Materials 20,000
Finished goods 15,000
Purchase of Raw Materials 80,000
Sales 2,00,000
Direct Wages 35,000
Factory Wages 2,000

Carriage Inward 2,000
Carriage Outward 1,000
Factory Expenses 4,000
Office Salaries 15,000
Office Expenses 12,000
Factory Rent & Rates 2,500
Depreciation - Machinery 2,500
Bad Debts 1,500</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>c)</td><td>Define Job costing. Give its key features for cost control.</td><td>CO5</td><td>PO1</td><td>05</td></tr>
<tr><td></td><td></td><td></td><td>OR</td><td></td><td></td><td></td></tr>
<tr><td></td><td>8</td><td>a)</td><td>A manufacturing company operating a standard costing system. The actual data is given below;
Actual No. of working days = 22
Actual man hrs. during month = 8600
Units produced = 850
Actual fixed overhead cost = Rs. 3600
The std. data is given below,
Budgeting No. of working days/ month = 20
Man hrs./ month = 8000
Std. man hrs. required / unit = 10
Std. fixed overhead rate / hr. = Rs. 0.5
Calculate the overhead variances.</td><td>CO5</td><td>PO1
PO2</td><td>12</td></tr>
<tr><td></td><td></td><td>b)</td><td>Calculate the total labor variances for workman A & B required to produce one unit of product A.
<table>
<tr><th>Particulars</th><th>Std. hrs. / unit</th><th>Std. rate / hr.</th><th>Actual / unit</th><th>Actual rate / hr.</th></tr>
<tr><td>Workman A</td><td>20</td><td>3</td><td>30</td><td>3</td></tr>
<tr><td>Workman B</td><td>25</td><td>4</td><td>15</td><td>4.5</td></tr>
</table></td><td>CO5</td><td>PO1
PO2</td><td>08</td></tr>
<tr><td></td><td></td><td></td><td>UNIT - V</td><td></td><td></td><td></td></tr>
<tr><td></td><td>9</td><td>a)</td><td>Describe the essentials of Walter’s dividend model. Explain its shortcomings.</td><td>CO6</td><td>PO1</td><td>10</td></tr>
</table>

		b)	Discuss the issues of bonus shares in India.	*CO6*	*PO1*	**10**
			OR			
	10	a)	The earnings per share of a company are Rs. 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used: i) What should be the optimum payout ratio of the firm? ii) What would be the price of the share at the payout? iii) How shall the price of the share be affected if a different payout were employed?	*CO6*	*PO1* *PO2*	**10**
		b)	A company has a total investment of Rs. 5, 00,000 in assets, and 50,000 outstanding ordinary shares at Rs. 10 per share (par value). It earns a rate of 15% on its investment, and has a policy of retaining 50% of the earnings. If the appropriate discount rate of the firm is 10%, Determine the price of its share using Gordon's model. What shall happen to the price of the share if the company has a payout of 80% or 20%?	*CO6*		**10**

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