FYUG/Sem-4/AC/MG/FI-CE3

2026

(Regular)

Commerce (Core)

Paper Code : AC/MG/FI-CE-4234

Paper Name : Fundamentals of Financial Management

Time : 2½ hours ***Full Marks : 60***

The figures in the margin indicate full marks for the questions

1. Choose the correct answer : 1×7=7

 a) Financial management deals with :
 i) Procurement of funds
 ii) Utilization of funds
 iii) Both A and B
 iv) None of the above

 b) Capital structure refers to :
 i) Assets
 ii) Liabilities
 iii) Mix of debt and equity
 iv) None of the above

 c) Net working capital =
 i) Current Assets – Longterm Liabilities
 ii) Fixed Assets – Liabilities
 iii) Profit – Loss
 iv) Current Assets – Current Liabilities

 d) Shortage of working capital causes :
 i) Smooth operations
 ii) Financial distress
 iii) High profit
 iv) Cash inflows

e) The job of a financial manager is confined to :

i) Raising of fund

ii) Management of cash

iii) Raising of fund and their effective utilization

iv) None of the above

f) Capital budgeting is a part of :

i) Investment decisions

ii) Short term decisions

iii) Both (i) and (ii)

iv) Neither (i) or (ii)

g) A current ratio of less than one means :

i) Current Liabilities < Current Assets

ii) Fixed Assets > Current Assets

iii) Current Assets < Current Liabilities

iv) Share Capital > Current Assets

2. Answer the following questions in brief : 2×4=8

a) What is financial management ?

b) What do you mean by financial leverage ?

c) What is pay back period ?

d) State any two factors affecting capital structure.

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

a) What is capital structure ? Explain its importance in brief. 2+3=5

b) Distinguish between gross working capital and net working capital.

c) Explain the capital budgeting process.

d) Explain the objectives of Financial Management with emphasis on wealth maximization.

e) State the limitations of financial management.

f) How do you calculate the accounting rate of return ? What are its limitations ? 3+2=5

4. Answer the following questions *(any three)*: 10×3=30

a) State the various theories of capital structure. Which theory is most relevant in modern business ? Give some arguments. 6+1+3=10

b) Explain the traditional approach of capital structure. How is it different from Modigliani-Miller approach ? 5+5=10

c) "Financial Management is considered with decision making rather than mere fund management." - Discuss the statement critically. 10

d) State various factors determining the working capital requirement of a firm.

e) "Financial Management is concerned with solution of three major decisions- the investment decision, the financing decision and the dividend decision". Explain statement highlighting the inter-relationship amongst these decisions. 10

f) ABC Ltd. is considering an investment proposal to install a new industrial mixer at a cost of Rs. 10,00,000. The facility has a life expectancy of 5 years and has no salvage value.

The expected revenue before depreciation and taxes from the investment is as follows :

- Year 1 : Rs. 2,00,000
- Year 2 : Rs. 2,20,000
- Year 3 : Rs. 2,50,000
- Year 4 : Rs. 2,60,000
- Year 5 : Rs. 3,00,000

The tax rate is 30% per annum and the company uses the straight-line method for depreciation.

i) Determine the cash flows after taxes but before depreciation. 4

ii) Calculate the Net Present Value (NPV) of the investment at a 10% discount rate. 4

iii) Comment on whether the proposal should be accepted or not. 2

[Present value of Rs. 1 at 10% discount rate for 5 years : 0.909, 0.826, 0.751, 0.683, 0.621]

■■■