

Code No: 21BA2T1

**I MBA - II Semester - Regular / Supplementary Examinations  
JULY 2024**

**FINANCIAL MANAGEMENT**

Duration: 3 Hours

Max. Marks: 70

- Note: 1. This question paper contains three Parts-A, Part-B and Part-C.  
 2. Part-A contains 8 short answer questions. Answer any **Five** Questions.  
 Each Question carries 2 Marks.  
 3. Part-B contains 5 essay questions with an internal choice from each unit.  
 Each Question carries 10 marks.  
 4. Part-C contains one Case Study for 10 Marks.  
 5. All parts of Question paper must be answered in one place

BL – Blooms Level

CO – Course Outcome

**PART - A**

		BL	CO
1. a)	Define profit maximization and wealth maximization.	L1	CO1
1. b)	Recall the characteristics of long-term investment decisions.	L1	CO1
1. c)	Discuss the basic aspects of cost of capital.	L2	CO2
1. d)	Describe concept of operating leverage and its significance in financial analysis.	L2	CO3
1. e)	Identify the factors that influence the dividend policy in Walter's Model.	L1	CO3
1. f)	List the key components involved in estimating working capital.	L1	CO4
1. g)	Define the operating cycle in financial management.	L1	CO4
1. h)	Identify the key features of marketable securities.	L1	CO5

## PART – B

			BL	CO	Max. Marks						
<div>UNIT – I</div>											
2.	a)	Show the role of stakeholders in influencing a company's choice between profit and wealth maximization objectives.	L3	CO1	5 M						
	b)	Compare and contrast various capital budgeting techniques (e.g., NPV, IRR, payback period) in terms of their strengths and limitations.	L2	CO1	5 M						
<div>OR</div>											
3.	a)	Identify the risk associated with different investment opportunities and its impact on capital budgeting evaluations.	L2	CO1	5 M						
	b)	Calculate : i) PBP ii) ARR iii) NPV, and iv) PI, from the following cash flow (CFAT) stream of X and Y. Assume 10 per cent discounting rate.	L3	CO1	5 M						
Years	0	1	2	3	4	5	6	7	8	9	10
X (Rs. in Lakhs)	4	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Y (Rs. in Lakhs)	6	80,000	80,000	80,000	80,000	80,000	60,000	70,000	30,000	30,000	40,000
<div>UNIT – II</div>											
4.	a)	Analyze the impact of changes in the cost of capital on a company's investment decisions and shareholder value.	L4	CO2	5 M						

	b)	From the following data, Calculate operating leverage:	L3	CO2	5 M									
		<table><tr><td>Year</td><td>EBIT(Rs)</td><td>Sales in units (Rs)</td></tr><tr><td>2022</td><td>60,000</td><td>3,00,000</td></tr><tr><td>2023</td><td>70,000</td><td>3,60,000</td></tr></table>	Year	EBIT(Rs)	Sales in units (Rs)	2022	60,000	3,00,000	2023	70,000	3,60,000			
Year	EBIT(Rs)	Sales in units (Rs)												
2022	60,000	3,00,000												
2023	70,000	3,60,000												

**OR**

5.	a)	Analyze how changes in capital structure (e.g., increased debt financing) affect a company's WACC.	L4	CO2	5 M															
	b)	From the following capital structure of a firm, compute WACC based on existing capital structure. <table><tr><td>Source of finance</td><td>Amount</td><td>Specific costs (%)</td></tr><tr><td>Equity shares</td><td>9,00,000</td><td>18</td></tr><tr><td>Retained earnings</td><td>3,00,000</td><td>-</td></tr><tr><td>Preference shares</td><td>2,00,000</td><td>11</td></tr><tr><td>Debentures</td><td>6,00,000</td><td>8</td></tr></table>	Source of finance	Amount	Specific costs (%)	Equity shares	9,00,000	18	Retained earnings	3,00,000	-	Preference shares	2,00,000	11	Debentures	6,00,000	8	L3	CO2	5 M
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Debentures	6,00,000	8																		

### **UNIT-III**

6.	a)	Determine the most cost-effective ordering strategy for a given set of quantity discount options using the Walters' model.	L4	CO3	5 M
	b)	From the following information of Rupa's Co. Ltd. Calculate share price based on Walter's model and also say whether you are satisfied with the current dividend policy or not? If not Why? Earnings per share: Rs 4, Dividend per share: Rs 2, Internal rate of return 10% Rate of return required by investors 10%.	L3	CO3	5 M

OR					
7.	a)	Utilize the clientele effect to predict the reaction of different investors to a change in dividend policy.	L4	CO3	5 M
	b)	A firm expected net earnings per share are Rs 20. Capitalization rate of the firm is 16% and rate of return on investment is 17%. What shall be the share price if the firm has dividend payout ratio (i) 50% (ii) 75% (iii) 100%. Assuming Gordon's model applies.	L3	CO3	5 M

### UNIT – IV

8.	a)	Identify the impact of an increase in short-term liabilities on working capital.	L3	CO4	5 M														
	b)	<p>You are requested by A. P Paper mills Limited to estimate working capital required for the level of activity of 6,24,000 units of production. Add 5 percent for safety. It provides the following information. You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly and a time period off four weeks is equivalent to a month.</p> <table><tr><td>Particulars</td><td>Amount (per Unit)</td></tr><tr><td>Raw Materials</td><td>90</td></tr><tr><td>Direct Labour</td><td>40</td></tr><tr><td>Overheads</td><td>80</td></tr><tr><td>Total cost</td><td>210</td></tr><tr><td>Profit</td><td>60</td></tr><tr><td>Selling price</td><td>270</td></tr></table>	Particulars	Amount (per Unit)	Raw Materials	90	Direct Labour	40	Overheads	80	Total cost	210	Profit	60	Selling price	270	L3	CO4	5 M
Particulars	Amount (per Unit)																		
Raw Materials	90																		
Direct Labour	40																		
Overheads	80																		
Total cost	210																		
Profit	60																		
Selling price	270																		

OR					
9.	a)	Compare and contrast the advantages and limitations of using gross working capital versus net working capital as measures of liquidity.	L2	CO4	5 M

	b)	Describe the factors that influence the length of the operating cycle for a company.	L2	CO4	5 M
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### **UNIT – V**

10.	a)	Identify the suitability of various marketable securities for different investment objectives and risk preferences.	L2	CO5	5 M
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	b)	Compare and contrast the impact of different cash management strategies on a company's liquidity and financial performance.	L2	CO5	5 M
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### **OR**

11.	a)	Evaluate the effectiveness of credit policies in minimizing bad debts and maximizing sales revenue.	L4	CO5	5 M
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	b)	Discuss the adequacy of cash reserves maintained by a company based on its cash budget projections.	L2	CO5	5 M
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### **PART –C**

		BL	CO	Max. Marks
12.	Bhuvan inherited a very large area of agricultural land in Haryana after the death of his grandfather. He plans to sell this piece of land and use the money to set up a small-scale paper factory to manufacture all kinds of stationary items from recycled paper. Being an amateur in business, he decides to consult his friend Subhash who works in a financial consultancy firm. Subhash helps him to prepare	L4	CO4	10 M

	<p>a blue print of his future business operations on the basis of sales forecast in next five years. Based on these estimates, he helps Bhuvan to assess the fixed and working capital requirements of business.</p> <p>In context of the above case:</p> <ol style="list-style-type: none"> <li>1. Identify the type of financial service that Subhash has offered to Bhuvan.</li> <li>2. Briefly state any four points highlighting the importance of the type of financial service identified in the above question 1.</li> </ol>			
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