

R.N.G.PATEL INSTITUTE OF TECHNOLOGY-RNGPIT
(An Autonomous College U/s UGC Act 1956)

MBA SEMESTER-II, SEMESTER END EXAMINATION – WINTER 2025

SUBJECT CODE: 1MB1203

DATE: 21-01-2026

SUBJECT NAME: FINANCIAL MANAGEMENT

TIME: 09:00 AM to 12:00 PM

TOTAL MARKS: 70

Instructions

1. It is **compulsory** for students to write **Enrolment No. /Seat No.** on the question paper.
2. Write answers of **Section A** and **Section B** in **separate answer books**.
3. Attempt all questions from both **Section A** and **Section B**.
4. Each section carries **35 marks**, with a total of **70 marks** for the examination.
5. The figures to the right of each question indicate full marks, make suitable assumptions with justification.
6. BL - Bloom's Taxonomy Levels (R-Remember, U-Understanding, A –Application, N –Analyze, E – Evaluate, C -Create), CO - Course Outcomes.

SECTION A

Marks BL CO

Q.1 Multiple-Choice Questions

[05]

(a) The primary objective of financial management is:

1 U 1

(i) Profit Maximization

(ii) Sales Maximization

(iii) Wealth Maximization

(iv) Cost Minimization

(b) Which of the following is a function of financial management?

1 R 1

(i) Recruitment

(ii) Production

(iii) Investment decisions

(iv) Inventory counting

(c) The concept of time value of money is based on:

1 U 1

(i) Inflation

(ii) Risk aversion

(iii) Money has greater value today than in future

(iv) Market trends

(d) Payback Period technique is used to evaluate:

1 R 2

(i) Capital budgeting projects

(ii) Capital structure

(iii) Cash flows

(iv) Shareholder dividends

(e) Which of the following is not a component of cost of capital? 1 U 2

(i) Cost of debt

(ii) Cost of goods sold

(iii) Cost of equity

(iv) Cost of preference shares

Q.2 Attempt Any Two [10]

(a) If today Mr. X invests ₹2,000 in a bank that offers 9% interest per annum compounded annually, how much amount will Mr. X be able to withdraw after 3 years? 5 A 1

(b) Discuss the objectives of financial management with comparison between profit maximization and wealth maximization. 5 U 1

(c) Mr. Y has taken a loan of ₹50,000 at an interest rate of 12% per annum for a period of 6 years. The loan is to be repaid in equal annual installments (including both principal and interest). Prepare a loan repayment schedule for 6 years. 5 N 1

Q.3 Attempt Any Two [10]

(a) Explain the meaning and scope of financial management. 5 U 1

(b) Project X requires an initial investment of ₹2,500 and is expected to generate the following year-end cash inflows: 5 A 2

YEAR	CASH INFLOW
1	900
2	800
3	700
4	600
5	500

Assuming the opportunity cost of capital is 10%, **calculate the Net Present Value (NPV)** of the project.

(c) Project X requires an initial investment of ₹25000 and is expected to generate the following year-end cash inflows: 5 A 2

YEAR	CASH INFLOW
1	12000
2	10000
3	7000
4	60

Calculate the Internal Rate of Return

Q.4 Attempt Any Two [10]

(a) What is capital budgeting? Explain its significance and process 5 U 2

(b) The initial cash outlay of a project is Rs 100,000 and it can generate cash inflow of Rs 40,000, Rs 30,000, Rs 50,000 and Rs 20,000 in year 1 through 4. Assume a 10 percent rate of discount. Find out Payback Period. 5 A 2

(c) Define cost of capital. What are its components? 5 U 2

SECTION B

Marks BL CO

Q.5 Multiple-Choice Questions

[05]

- (a) What is capital structure? 1 U 3
- (i) The total number of employees in a company
(ii) The way a company finances its operations using debt and equity
(iii) A list of company's assets
(iv) A method of setting product prices
- (b) Which of the following best describes operating leverage? 1 R 3
- (i) The sensitivity of EPS to changes in EBIT
(ii) The use of fixed financial costs in the capital structure
(iii) The use of fixed operating costs to magnify the effect of sales changes on EBIT
(iv) The ratio of debt to equity in capital structure
- (c) Which one is a source of equity financing? 1 R 3
- (i) Bank loan
(ii) Bonds
(iii) Issuing shares
(iv) Lease agreement
- (d) Why is cash management important for a business? 1 U 4
- (i) To increase taxes
(ii) To avoid keeping records
(iii) To ensure there is enough cash to meet daily expenses
(iv) To delay supplier payments
- (e) What is a credit policy? 1 R 4
- (i) A company's rule for advertising
(ii) A government-issued loan
(iii) Guidelines for giving credit to customers and collecting payments
(iv) A law about minimum wages

Q.6 Attempt Any Two

[10]

- (a) A manufacturing firm has the following financial data: 5 N 3
- Selling Price per unit: ₹100
 - Variable Cost per unit: ₹60
 - Fixed Operating Costs: ₹200,000
 - Units Sold: 10,000
 - Interest on Debt: ₹50,000
- Calculate Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) & Degree of Combined Leverage (DCL)
- (b) Discuss Dividend theories in detail. 5 U 3

- (c) ABC Ltd. uses a raw material in its production process. The following data is available. Calculate EOQ and reorder point. 5 N 3
- Annual demand (D) = 6,400 units
 - Ordering cost per order (S) = ₹200
 - Carrying cost per unit per year (H) = ₹5
 - Lead time = 8 days
 - Daily usage = 20 units
 - The company operates 320 days per year.

Q.7 Attempt Any Two [10]

- (a) Differentiate between equity, debt, and hybrid sources of financing. Briefly explain the advantages and disadvantages of each. 5 U 4
- (b) XYZ Ltd. has the following financial details: 5 N 4
- Earnings per share (E) = ₹8
 - Dividend per share (D) = ₹4, ₹6 & ₹8
 - Return on investment (r) = 12%
 - Cost of equity capital (Ke) = 10%

Using Walter's Model, calculate the market price per share (P) by applying three different level of dividend.

- (c) OHM Ltd. has the following data for the current year. 5 A 4
- Sales: ₹18,00,000
 - Cost of Goods Sold (COGS): ₹12,00,000
 - Average Inventory: ₹2,00,000
 - Accounts Receivable (AR): ₹1,50,000
 - Accounts Payable (AP): ₹1,00,000
 - Cash & Cash Equivalents: ₹50,000, additionally, the company operates 365 days a year. Calculate the Operating Cycle (OC) & Determine the Cash Conversion Cycle (CCC).

Q.8 Attempt Any Two [10]

- (a) Explain the concept of financial leverage. How does it influence the firm's earnings per share (EPS) under different economic conditions? 5 E 3
- (b) PQR Ltd. is a well-established company that is expected to pay a dividend of ₹20 per share next year (D₁). The dividends are expected to grow at a constant rate of 5% per year. The required rate of return (Ke) for the stock is 12%. Using Gordon's Dividend Discount Model (DDM), calculate the market value of the stock (P₀). 5 A 3
- (c) Discuss the primary objectives of cash management in a business. Why is maintaining optimum cash balance important for financial stability? 5 E 4
