PVP24

Code No: **24BA2T1**

I MBA - II Semester - Regular Examinations – JUNE 2025

FINANCIAL MANAGEMENT

Duration: 3 Hours Max. Marks: 70

Note: 1. This question paper contains two Parts: Part-A and Part-B.
2. Part-A contains 5 essay questions with an internal choice from each unit. Each Question carries 12 marks.
3. Part-B contains one Case Study for 10 Marks.
4. All parts of Question paper must be answered in one place

BL – Blooms Level CO – Course Outcome

PART - A

			BL	CO	Max. Marks
UNIT – I					
1.	a)	Elaborate the role of financial management in current scenario.	L2	CO1	8 M
	b)	Explain the nature of dividend decision.	L2	CO1	4 M
OR					
2.	a)	Give critical note on Wealth maximization objective of firm.	L3	CO1	8 M
	b)	Explain about Financing Decision with suitable illustration.	L4	CO1	4 M
UNIT – II					
3.	a)	Critically examine MM theory of capital structure. What are its assumptions and limitations?	L4	CO2	8 M

<table>
<tr><td></td><td>b)</td><td>Give a brief note on measuring the cost of capital.</td><td>L4</td><td>CO2</td><td>4 M</td></tr>
<tr><td colspan="6">OR</td></tr>
<tr><td>4.</td><td colspan="2">Calculate operating and financial leverages under situation A, B, C and financial plan 1, 2 and 3 respectively from the following information of X company. Installed capacity 12000units, actual production and sales 800 units.
Selling price Rs. 15 per unit, variable cost Rs.10 per unit.
Fixed cost : Under A: Rs 1000, Under B: Rs 2000, under C: Rs 3000
<table>
<tr><th>Particulars</th><th>Financial Plan I</th><th>Financial Plan II</th><th>Financial Plan III</th></tr>
<tr><td>Equity share capital</td><td>Rs.5000</td><td>Rs.7500</td><td>Rs.2500</td></tr>
<tr><td>Debt capital at 12%</td><td>Rs.5000</td><td>Rs.2500</td><td>Rs.7500</td></tr>
</table></td><td>L4</td><td>CO2</td><td>12 M</td></tr>
<tr><td colspan="6">UNIT-III</td></tr>
<tr><td>5.</td><td>a)</td><td>Explain the various stages in capital budgeting process.</td><td>L4</td><td>CO3</td><td>8 M</td></tr>
<tr><td></td><td>b)</td><td>Mention any 2 differences between Discounting and Non Discounting techniques of investment appraisal.</td><td>L2</td><td>CO3</td><td>4 M</td></tr>
<tr><td colspan="6">OR</td></tr>
<tr><td>6.</td><td colspan="2">From the following data judge which machine to be selected when company is at present requires 10% rate of return.</td><td>L4</td><td>CO3</td><td>12 M</td></tr>
</table>

Initial cost	Machine Y Rs. 20,000	Machine Z Rs.28,000
Years	Cash inflows (at the end of year)	Cash inflows (at the end of year)
1	8000	28,000
2	12,000	12,000
3	9,000	12,000
4	7,000	9,000
5	6,000	9,000

Judge which project is to be selected using

a) NPV b) Profitability Index.

UNIT – IV

7.	a)	What do you mean by Bonus shares? What is impact of issue of bonus shares on capital structure?	L1	CO4	8 M
	b)	Explain the assumptions of Walter's model.	L2	CO4	4 M

OR

8.	M ltd has 1 lakh equity shares, currently traded at Rs.136 per share. The management of the firm is thinking of paying a dividend of Rs. 8.75 per share The capitalization rate is 12%. Using MM Hypothesis you are required to calculate: a) Price per share at the end of year if a dividend is paid. b) Price per share at the end of year if a dividend is not paid. c) The number of new shares to be issued to meet the investment needs of Rs.2 lakhs assuming a net income of Rs. 1.10 lakhs and also assuming that the dividend is also paid.	L4	CO4	12 M

<table>
<tr><th colspan="6"><u>UNIT – V</u></th></tr>
<tr><td rowspan="2">9.</td><td>a)</td><td>Explain the factors influencing the determination of working capital.</td><td>L2</td><td>CO5</td><td>8 M</td></tr>
<tr><td>b)</td><td>Give a note on Cash Budget. What is the main purpose of its preparation?</td><td>L2</td><td>CO5</td><td>4 M</td></tr>
<tr><td colspan="6">OR</td></tr>
<tr><td>10.</td><td colspan="2">From the following information draw a cash budget for a period of 6 months from January to June 2025.
<table>
<tr><th>Month</th><th>Sales (Rs)</th><th>Production Expenses (Rs)</th><th>Other Expenses (Rs)</th></tr>
<tr><td>November</td><td>500</td><td>30</td><td>47</td></tr>
<tr><td>December</td><td>600</td><td>40</td><td>50</td></tr>
<tr><td>January</td><td>300</td><td>20</td><td>40</td></tr>
<tr><td>February</td><td>400</td><td>15</td><td>30</td></tr>
<tr><td>March</td><td>500</td><td>20</td><td>20</td></tr>
<tr><td>April</td><td>300</td><td>30</td><td>15</td></tr>
<tr><td>May</td><td>200</td><td>40</td><td>20</td></tr>
<tr><td>June</td><td>250</td><td>50</td><td>30</td></tr>
</table>
i) 50% of the sales are on cash basis
ii) 40% of the credit sales are collected in the month following the sales, 30% in the second month and 30% in the third month.
iii) The time lag in the payment of production expenses and other expenses is one month
iv) A minimum cash balance of Rs.1,00,000/- is to be maintained. Amount can be borrowed @ 15% p.a. as the interest being payable on monthly basis.</td><td>L4</td><td>CO5</td><td>12 M</td></tr>
</table>

PART – B

11.	**CASE STUDY**	L5	CO3	10 M

Calmel Company is situated in South West America and it specializes in manufacturing overhead water tanks. The management of Calmel has identified a niche market in certain southern cites that needs particular size of water tank, not currently manufactured by the company. The company is therefore thinking of producing a new type of overhead water tank. The survey of marketing team reveals that the company could sell 1,20,000 water tanks each year for six years at a price of Rs. 1500/- each.

The company current facilities cannot be used to manufacture the new size tanks. Therefore it will have to buy new machinery. A manufacturer has offered two options to the company.

The first option is that the company could buy four small machines with the capacity of manufacturing 30,000 tanks and the cost of each machine is Rs, 1150/- lakhs. The machine operation and manufacturing cost of each tank will be Rs 535/- .

The second option is that the company can buy a large machine with a capacity of 1,20,000 units per annum for Rs. 5000 lakhs . The machine operation and manufacturing cost of each tank will be Rs. 450/-
The company has a required rate of return of 12% and assumes that company does not pay any taxes.

Questions:

a) Which option should the company accept? Use the most suitable method of evaluation to give your recommendations and explicitly state your assumptions.
b) Why do you think that the method chosen by you is the more suitable method in evaluating the proposed investment? Give the computation of the alternative methods.