PVP24

Code No: **24BA2T1**

I MBA - II Semester – Regular / Supplementary Examinations
JULY 2026

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)	Explain the various stages in the evolution of Financial Management.	L2	CO1	8 M
	b)	Analyze the role of investment decision in Financial Management.	L4	CO1	4 M
		OR			
2.	a)	"Profit maximization is not an operationally feasible criterion"-do you agree? Illustrate your answer.	L4	CO1	8 M
	b)	Explain the objectives of financial management.	L2	CO1	4 M
		UNIT – II			
3.	a)	Critically elucidate various sources of Long term and short finance.	L2	CO2	8 M
	b)	What do you mean by weighted average cost of capital?	L1	CO2	4 M

OR

<table>
<tr><td>4.</td><td>A company has the following capital structure and after-tax cost for the different sources of funds used:
<table>
<tr><th>Sources of Fund</th><th>Amount (Rs)</th><th>Proportion (%)</th><th>After-Tax Cost(%)</th></tr>
<tr><td>Debt</td><td>1500</td><td>25</td><td>5</td></tr>
<tr><td>Preference shares</td><td>1200</td><td>20</td><td>10</td></tr>
<tr><td>Equity shares</td><td>1800</td><td>30</td><td>12</td></tr>
<tr><td>Retained Earnings</td><td>1500</td><td>25</td><td>11</td></tr>
<tr><td>Total</td><td>6000</td><td>100</td><td></td></tr>
</table>
Calculate weighted average cost of capital.</td><td>L4</td><td>CO2</td><td>12 M</td></tr>
</table>

UNIT-III

5.	a)	Outline the features and significance of Capital Budgeting decisions.	L3	CO3	8 M
	b)	A firm is at present making sales of Rs100000/- using a machine having depreciation of Rs10000/-per annum. The cost of sales is Rs 60000/- and firm is in the tax bracket of 40% Calculate Cash flows after Tax (CFAT)	L4	CO3	4 M

OR

<table>
<tr><td>6.</td><td colspan="2">Below is the given information of two project proposals. Initial Investment for each machine:Rs.28,000/-
Rank them by applying the
a)Payback period b)ARR
<table>
<tr><th>Year</th><th>Proposal-1 (Rs)</th><th>Proposal-2 (Rs)</th></tr>
<tr><td>1</td><td>12,990</td><td>14,600</td></tr>
<tr><td>2</td><td>14,000</td><td>13,980</td></tr>
<tr><td>3</td><td>12,500</td><td>12,900</td></tr>
<tr><td>4</td><td>13,500</td><td>12,800</td></tr>
</table></td><td>L4</td><td>CO3</td><td>12 M</td></tr>
<tr><td colspan="6"><u>UNIT – IV</u></td></tr>
<tr><td rowspan="2">7.</td><td>a)</td><td>Analyze various factors influencing Dividend Decision.</td><td>L4</td><td>CO4</td><td>6 M</td></tr>
<tr><td>b)</td><td>Explain major forms of dividend.</td><td>L2</td><td>CO4</td><td>6 M</td></tr>
<tr><td colspan="6">OR</td></tr>
<tr><td>8.</td><td colspan="2">From the following information related to 3 companies A, B, C you are required to calculate value of share of each of three companies applying Walter’s model when Dividend Pay Out Ratio is 50%, 75% and 25%.
<table>
<tr><td>Particulars</td><td>A Ltd</td><td>B Ltd</td><td>C Ltd</td></tr>
<tr><td>IRR (r)</td><td>15%</td><td>5%</td><td>10%</td></tr>
<tr><td>K_e</td><td>10%</td><td>10%</td><td>10%</td></tr>
<tr><td>EPS</td><td>Rs 8/-</td><td>Rs 8/-</td><td>Rs 8/-</td></tr>
</table></td><td>L4</td><td>CO4</td><td>12 M</td></tr>
<tr><td colspan="6"><u>UNIT – V</u></td></tr>
<tr><td rowspan="2">9.</td><td>a)</td><td>Explain basic cash management models.</td><td>L2</td><td>CO5</td><td>6 M</td></tr>
<tr><td>b)</td><td>Outline any 3 inventory control techniques.</td><td>L2</td><td>CO5</td><td>6 M</td></tr>
<tr><td colspan="6">OR</td></tr>
</table>

10.	From the following data you are required to prepare an estimate of Net working capital of X ltd for the next year after adding 10% to your computed figure for contingencies. Stock of finished goods: Rs. 12,500 Stock of stores and raw material: Rs. 20,000 Average credit for sales is 6 weeks Sales Rs.9,50,000/- Average time lag in payments: Wages 4 weeks Rs. 4,25,000/- Clerical staff salaries 4 weeks Rs.1,50,000/- Miscellaneous expenses 6 weeks Rs 1,40000/- Sundry expenses paid in advance quarterly Rs 22000/-	L4	CO5	12 M

PART – B

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

Turanth Forma is thinking of diversifying its business in the field of energy. The firm has decided to make a capital expenditure of Rs 35 crores in an energy project. The project is expected to yield a positive net present value of Rs 25 core. The firm is also considering a payment of dividends of Rs 20 Crores.

The internal funds available with the firm are Rs 10 Crores. It has paid up share capital of Rs 50 crores divided into 5 crores shares of Rs 10 each. The current price of the firm's share is Rs 25/-. The firm has not borrowed funds in the past and would continue with this policy in the future.

Questions:

i) Given the firm's capital expenditure and the policy of zero borrowings show the implications of the payment of dividends for the shareholder value.

ii) Will your answer be different if Turnat Forma decides not to pay any dividends? Assume no taxes and no issue costs .

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I MBA – II Semester Regular Examinations-JUNE 2026

FINANCIAL MANAGEMENT

Max. Marks:70

PART-A

UNIT-I

1.a) Explain the various stages in he evolution of Financial Management. 8M CO1

b) Analyze the role of investment decision in Financial Management. 4M CO1

OR

2.a) "Profit Maximization is not an operationally feasible criterion"-do you agree? Illustrate your answer. 8M CO1

b) Explain the objectivs of Financial Management. 4M CO1

UNIT-II

3. a) Critically elucidate various sources of long term and short term finance. 8M CO2

b) What do you mean by weighted average cost of capital. 4M CO2

OR

4. A company has he following capital structure and after tax cost for the different sources of funds. 12M CO2

Sources of Fund	Amount (Rs)	Proportion (%)	After Tax cost (%)
Debt	1500	25%	5%
Preference shares	1200	20%	10%
Equity shares	1800	30%	12%
Retained Earnings	1500	25%	11%
Total	6000	100	

Calculate weighted average cost of capital

UNIT-III

5.a) Outline the features and significance of Capital Budgeting decisions. 8M CO3

b) A firm is at present making sales of Rs 100000/- using a machine having depreciation of Rs 10000/- per annum. The cost of sales is Rs 60000/- and firm is in the tax bracket of 40%Calculate Cash flow after tax(CFAT). 4M CO3

OR

6. Below is he given information of two project proposes. Initial investment for ach machine Rs.28000/-

Rank them by applying the

a) Pay back period 12M CO3

b) ARR

Years	Proposal- 1	Proposal -2
1	12990	14600
2	14000	13980
3	12500	12900
4	13500	12800

UNIT-IV

7. **a) Analyze various factors influencing Dividend Decisions. 6M CO4**

b) Explain major forms of Dividend. 6M CO4

OR

8. From the following information related to 3 companies A,B,C you re required to calculate value of share of each of three companies applying Walter's model when Dividend pay out ratio is 50%,75% and 25%. 12M CO4

Particulars	A Ltd	B Ltd	C Ltd
IRR(r)	15%	5%	10%
Ke	10%	10%	10%
EPS	Rs 8/-	Rs 8/-	Rs 8/-

UNIT-V

9.a) Explain basic cash management models. 6M CO5

b) Outline any 3 inventory control techniques. 6M CO5

OR

10. From the following ata you are required to prepare an estimate of Net working capital of X ltd for he next year after adding 10% to your computes figure for contingencies.

Stock of finished goods: Rs.12500
Stock of stores and raw material: Rs. 20000
Average credit for sales is 6 weeks
Sales Rs. 950000
Average time lag in payments:
Wages 4 weeks Rs. 425000
Clerical staff salaries 4 weeks Rs. 150000
Miscellaneous expenses 6weeks Rs. 140000
Sundry expenses paid in advance quarterly Rs. 22000 12M CO5

PART-B

CASE STUDY

CO3 10M

11. Turanth forma is hinking of diversifying it's business in the field of energy.The firm has decided to make a capital expenditure of Rs. 35crores in an energy project.The project is expected to yeild a positive net present value of Rs. 25 crore. The firm is also considering a payment of dividend of Rs. 20 crores. The internal funds available with the firm are Rs. 10crores. It has paid up shares capital of Rs. 50 crores dividend into 5crores shares of Rs.10/- each.The current price of the firm share is Rs.25/-. The firm has not borrowed funds in the past and would continue with this policy in he future.

Questions:

i) Given the firm's capital expenditure and the policy of zero borrowings show the implications of he payment of dividends for the shareholder value.

ii) Will your answer be different if Turant Forma decides not to pay any dividends?Assume no taxes and no issue costs.

PART-A

UNIT-1

1.a) Explain the various stages in he evolution of Financial Management. 8M

Approaches to Finance Management

Modern Approach

Traditional Approach.

Traditional approach:In the early part of during the year 1920 to 1950.

i) Arrangement of funds from lending body.

ii) Arrangement of funds through various financial instruments.

iii) Finding out the various sources of funds.

Modern approach:

i) Focus on wealth maximization

ii) Scientific and strategic approach techniques

iii) Focus on investing, financing,dividend decisions.

iv) Primary objective is to improve shareholders wealth

v) Working capital management is primary function.

b) Analyze the role of investment decision in Financial Management. 4M

Investment decision is a decision about where and how to invest the firm's funds to earn the highest possible return. It deals with selection of assets in which funds will be invested by the firm. It is also called Capital Budgeting Decision.

1. Long-term Growth
2. Large Fund Commitment
3. Risk and Return Trade-off
4. Profitability Impact
5. Effect on Financing Decision
6. Wealth Maximization

OR

2 a)"Profit Maximization is not an operationally feasible criterion"-do you agree? Illustrate your answer. **8M**

1. Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.
2. Ultimate aim of the business concern is earning profit, hence, it considers all the possible ways to increase the profitability of the concern.
   Profit is the parameter of measuring the efficiency of the business concern.
3. So it shows the entire position of the business concern.
4. Profit maximization objectives help to reduce the risk of the business.

Favourable Arguments for Profit Maximization:

(i) Main aim is earning profit.

(ii) Profit is the parameter of the business operation.

(iii) Profit reduces risk of the business concern.

(iv) Profit is the main source of finance.

(v) Profitability meets the social needs also.

Unfavourable Arguments for Profit Maximization:

(i) Profit maximization leads to exploiting workers and consumers.

(ii) Profit maximization creates immoral practices such as corrupt practice, unfair trade practice, etc.

(iii) Profit maximization objectives leads to inequalities among the sake holders such as customers, suppliers, public shareholders, etc.

Drawbacks of Profit Maximization:

(i) It is vague

(ii) It ignores the time value of money

(iii) It ignores risk

2. b)Explain the objectivs of Financial Management. **4M**

Effective procurement and efficient use of finance lead to proper utilization of the finance by the business concern. It is the essential part of the financial manager. Hence, the financial manager must determine the basic objectives of the financial management. Objectives of Financial Management may be broadly divided into two parts such as:

1. Profit maximization
2. Wealth maximization

Profit maximization consists of the following important features.

1. Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.
2. Ultimate aim of the business concern is earning profit, hence, it considers all the possible ways to increase the profitability of the concern.
3. Profit is the parameter of measuring the efficiency of the business concern. So it shows the entire position of the business concern.
   Profit maximization objectives help to reduce the risk of the business.

Favourable Arguments for Wealth Maximization:

(i) Wealth maximization is superior to the profit maximization because the main aim of the business concern under this concept is to improve the value or wealth of the shareholders.

(ii) Wealth maximization considers the comparison of the value to cost associated with the business concern. Total value detected from the total cost incurred for the business operation. It provides extract value of the business concern.

(iii) Wealth maximization considers both time and risk of the business concern.

(iv) Wealth maximization provides efficient allocation of resources.

UNIT-II

3. a) Critically elucidate various sources of long term and short term finance. 8M

1. **Based on the Period:**

- Long-term sources:
  - Equity Shares
  - Preference Shares
  - Debentures
  - Long-term Loans
  - Fixed Deposits
- Short-term sources:
  - Bank Credit
  - Customer Advances
  - Trade Credit
  - Public Deposits
  - Money Market Instruments

2.Based on ownership:

- An ownership source of finance include:
- Shares capital, earnings
- Retained earnings
- Surplus and Profits
- Borrowed capital include:
- Debenture
- Bonds
- Public deposits
- Loans from Bank and Financial Institutions.

3. Based on sources of finance:

- Internal source of finance includes:
- Retained earnings
- Depreciation funds
- Surplus

- External sources of finance may be include
  - Share capital
  - Debenture
  - Public deposits
  - Loans from Banks and Financial institutions.

4. **Based onBased in Mode of Finance**

- Security finance may be include:
  - Shares capital
  - Debenture
- Retained earnings may include:
  - Retained earnings
  - Depreciation funds
- Loan finance may include
  - Long-term loans from Financial Institutions
  - Short-term loans from Commercial banks.

b) What do you mean by weighted average cost of capital. 4M

Weighted average cost of capital is the expected average future cost of funds over the long run found by weighting the cost of each specific type of capital by its proportion in the firms capital structure.The computation of the overall cost of capital (Ko)involves the following steps.

(a) Assigning weights to specific costs.

(b) Multiplying the cost of each of the sources by the appropriate weights.

(c) Dividing the total weighted cost by the total weights.

The overall cost of capital can be calculated with the help of the following formula;

Ko= KdWd+ KpWp+ KeWe+ KrWr

Where,

Ko=Overall cost of capital

Kd= Cost of debt

Kp= Cost of preference share

Ke= Cost of equity

Kr= Cost of retained earnings

Wd= Percentage of debt of total capital

Or

4. A company has he following capital structure and after tax cost for the different sources of funds. **12M CO2**

Sources of Fund	**Amount (Rs)**	**Proportion (%)**	**After Tax cost (%)**
Debt	**1500**	**25%**	**5%**
Preference shares	**1200**	**20%**	**10%**
Equity shares	**1800**	**30%**	**12%**
Retained Earnings	**1500**	**25%**	**11%**
Total	**6000**	**100**	

Calculate weighted average cost of capital

Computation of Weighted Average Cost of Capital

Sources of Fund	Amount (Rs)	Proportion (%)W	After Tax cost (%)X	WX
Debt	1500	25%	5%	125
Preference shares	1200	20%	10%	200
Equity shares	1800	30%	12%	360
Retained Earnings	1500	25%	11%	275
Total	6000	W=100		WX= 960

Kw= WX/W

Kw=960/100

Kw=9.6%

Therefore WACCis 9.6%

UNIT-III

5.a) Outline the features and significance of Capital Budgeting decisions. 8M

Definitions:

According to the definition of Charles T. Hrongreen, "capital budgeting is a long-term planning for making and financing proposed capital out lays.

According to the definition of Richard and Green law, "capital budgeting is acquiring inputs with long-term return".

According to the definition of Lyrich, "capital budgeting consists in planning development of available capital for the purpose of maximizing the long-term profitability of the concern".

1. Huge investments
2. Long-term
3. Irreversible
4. Long-term effect

b) A firm is at present making sales of Rs 100000/- using a machine having depreciation of Rs 10000/- per annum. The cost of sales is Rs 60000/- and firm is in the tax bracket of 40%Calculate Cash flow after tax(CFAT). 4M

Computation of Cash flow after tax(CFAT)

Particulars	Amount Rs/-
Sales	100000
- Cost of sales	(60000)
Cash flow before depreciation and tax	40000
- depreciation	(10000)
Cash flow after depreciation and before tax	30000
- Tax	(12000)
Cash flow after depreciation and tax	18000
+ depreciation	10000
Cash flow after tax and before depreciation (CFAT)	28000

OR

6 Below is he given information of two project proposes. Initial investment for ach machine Rs.28000/-

Rank them by applying the

a) **Pay back period** **12M CO3**

b) **ARR**

Years	Proposal- 1	Proposal -2
1	12990	14600
2	14000	13980
3	12500	12900
4	13500	12800

a) **Calculation of pay back period:**

Pay-back period= base year+ cash ouflow- preceding cumulative cash inflow÷suceeding year cash inflow

Initial investment=28000/-

Annual cash inflow:

Calculation of cumulative cash flow

Year	Proposal 1	Cumulative cash inflow for proposal-1	Proposal 2	Cumulative cash inflow for proposal-2
1	12990	12990	14600	14600
2	14000	26990	13980	28580
3	12500	39490	12900	41480
4	13500	52990	12800	54280

Proposal 1:

The above calculation shows that in 2 years Rs. 26990 has been recovered Rs. 1010, is balance out of cash outflow. In the 3rd year the cash inflow is Rs. 12,500. It means the payback period is 2 to 3 years, calculated as follows:

= 2 years+ 1010/12500

= 2 years+ 0.0808

=2.0808years

Proposal 2:

The above calculation shows that in 1year Rs. 14600 has been recovered Rs. 13400, is balance out of cash outflow. In the 2ndyear the cash inflow is Rs. 13980. It means the payback period is 1 to 2 years, calculated as follows:

=1year + 13400/13980

= 1 year + 0.95

= 1.95 years

Ranking by Payback Period

1. **Proposal 2** (1.96 years) □
2. **Proposal 1** (2.08 years)

b. ARR:

Given:

- **Initial Investment = ₹ 28,000**
- **Life of Machine = 4 years**
- **Scrap Value = Nil** (assumed)

Annual Depreciation:

= 28,000/4 = ₹ 7,000

Proposal 1

Year	Cash Inflow (₹)	Less: Depreciation (₹)	Profit (₹)
1	12,990	7,000	5,990
2	14,000	7,000	7,000
3	12,500	7,000	5,500
4	13,500	7,000	6,500
Total			**24,990**

Average Annual Profit

=24,990/4 = ₹ 6,248

Average Investment

= 28,000/2= ₹ 14,000

ARR = 6248/ 14,000*100

=44.62 %

Proposal 2

Year	Cash Inflow (₹)	Less: Depreciation (₹)	Profit (₹)
1	14,600	7,000	7,600
2	13,980	7,000	6,980
3	12,900	7,000	5,900
4	12,800	7,000	5,800
Total			**26,280**

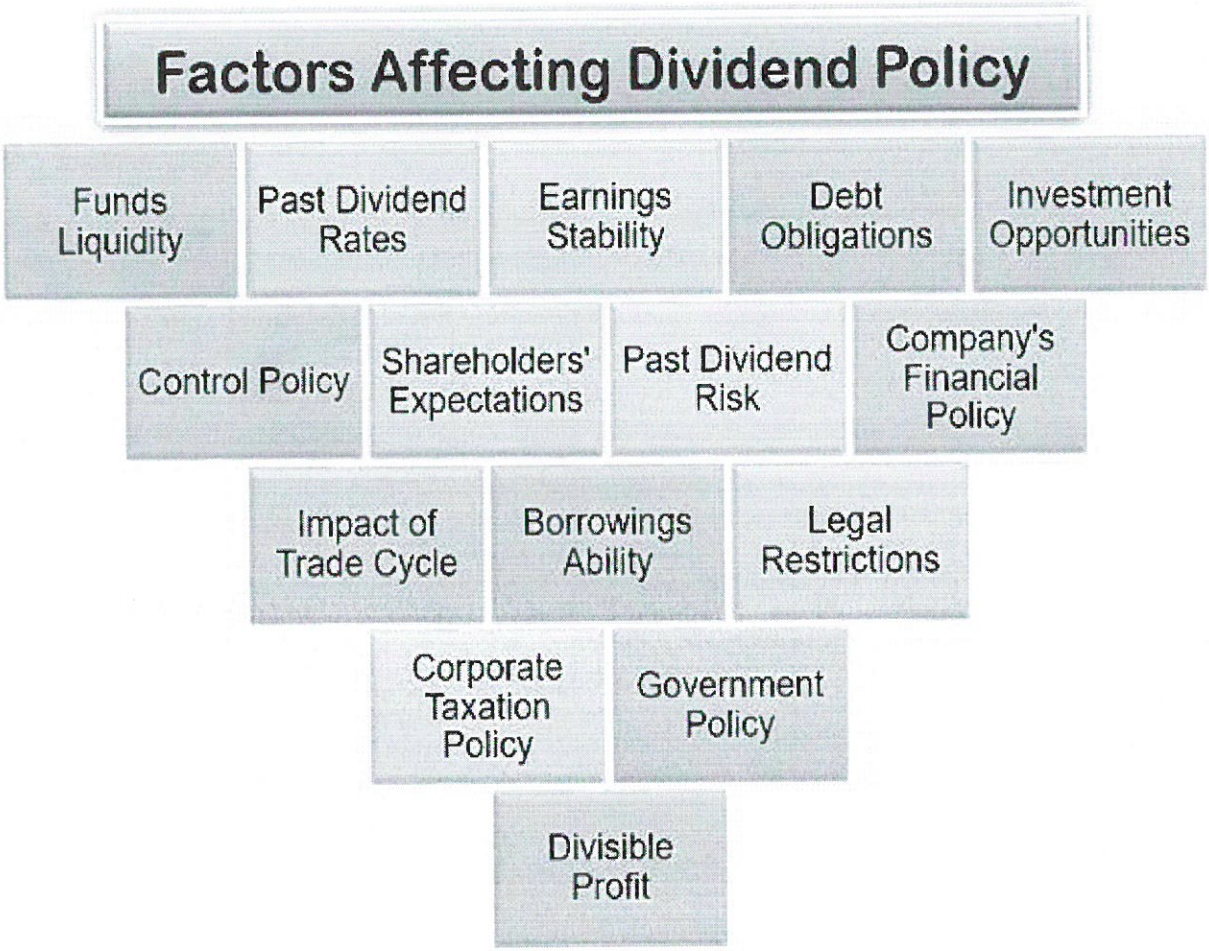
ARR = 6570/14000*100

=46.93%

Conclusion: Proposal 2 ranks first under both the **Payback Period** and **ARR** methods.

UNIT-IV

7. a) Analyze various factors influencing Dividend Decisions. **6M CO4**



b) Explain major forms of Dividend. 6M CO4

I. On the Basis of Nature of Payment

1. Profit Dividend

- Dividend paid out of the profits earned by the company.
- It is paid in the normal course of business.

2. Liquidation Dividend

- Dividend paid out of the company's capital.
- Usually declared when the company is being liquidated.

II. On the Basis of Mode of Payment

1. Cash Dividend

- Dividend paid in cash to shareholders.

It is the most common form of dividend .

2. Stock Dividend

- Dividend paid in the form of additional shares instead of cash.
- Also called a bonus share dividend.

3. Property Dividend

- Dividend paid in the form of assets or property other than cash.
- The asset may be land, securities, or other property.

4. Scrip Dividend / Bond Dividend

- Dividend paid through promissory notes or bonds.
- Used when the company does not have sufficient cash.

5. Liquidating Dividend

- Dividend paid from capital rather than profits.

  Indicates a return of shareholders' investment.

OR

8. From the following information related to 3 companies A,B,C you re required to calculate value of share of each of three companies applying Walter's model when Dividend pay out ratio is 50%,75% and 25%. 12M CO4

Particulars	A Ltd	B Ltd	C Ltd
IRR(r)	15%	5%	10%
Ke	10%	10%	10%
EPS	Rs 8/-	Rs 8/-	Rs 8/-

$$P = \frac{D + r/Ke(E-D)}{Ke}$$

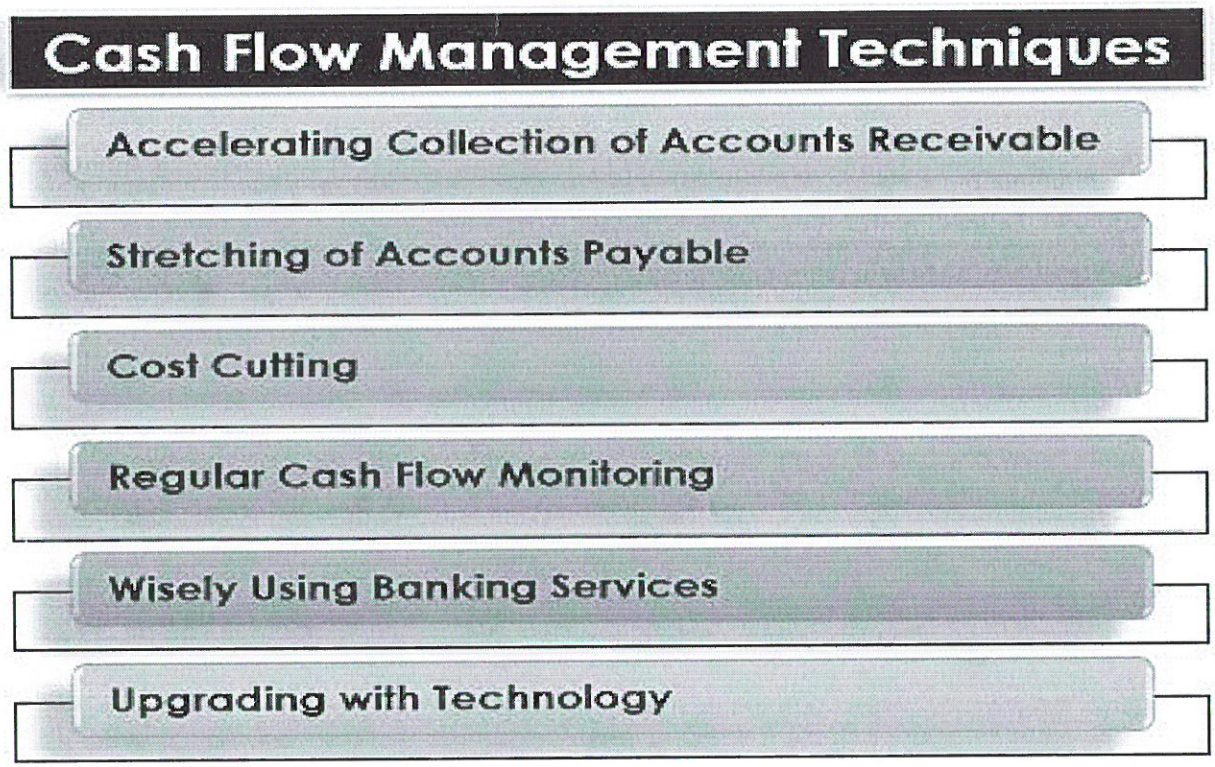
Where:

- **P** = Market price per share
- **D** = Dividend per share
- **E** = Earnings per share (EPS = ₹ 8)
- **r** = Internal Rate of Return (IRR)
- **Ke** = Cost of Equity (10% = 0.10)

Particulars	A Ltd (r=15%)	B Ltd (r=5%)	C Ltd (r=10%)
Dividend Payout 50%	**₹ 100**	**₹ 60**	**₹ 80**
Dividend Payout 75%	**₹ 90**	**₹ 70**	**₹ 80**
Dividend Payout 25%	**₹ 110**	**₹ 50**	**₹ 80**

UNIT-V

9.a) Explain basic cash management models. 6M CO5



b) **Outline any 3 inventory control techniques.** 6M CO5

Inventory control techniques help organizations maintain the optimum level of inventory by avoiding overstocking and stock-outs while minimizing inventory costs.

1. ABC Analysis (Always Better Control)

- Classifies inventory based on annual consumption value.
- **A Items:** High value, low quantity (strict control).
- **B Items:** Moderate value and quantity (moderate control).
- **C Items:** Low value, high quantity (simple control).

2. VED Analysis (Vital, Essential, Desirable)

- Classifies inventory based on criticality.
- **Vital (V):** Must always be available.
- **Essential (E):** Necessary but temporary shortage can be managed.
- **Desirable (D):** Least critical; shortage has minimal impact.

3. HML Analysis (High, Medium, Low)

- Classifies inventory based on unit price.
- **H:** High-cost items.
- **M:** Medium-cost items.
- **L:** Low-cost items.

OR

10.From the following ata you are required to prepare an estimate of Net working capital of X ltd for he next year after adding 10% to your computes figure for contingencies.

Stock of finished goods: Rs.12500

Stock of stores and raw material: Rs. 20000

Average credit for sales is 6 weeks

Sales Rs. 950000

Average time lag in payments:

Wages 4 weeks Rs. 425000

Clerical staff salaries 4 weeks Rs. 150000

Miscellaneous expenses 6weeks Rs. 140000

Sundry expenses paid in advance quarterly Rs. 22000 12M CO5

Particulars	**Amount (₹)**
Finished Goods	12,500
Stores & Raw Materials	20,000
Debtors	1,09,615
Prepaid Expenses	5,500
Total Current Assets (A)	**1,47,615**
Outstanding Wages	32,692
Outstanding Salaries	11,538
Outstanding Miscellaneous Expenses	16,154
Total Current Liabilities (B)	**60,384**
Total Current Assets (A)	1,47,615
Less: Total Current Liabilities (B)	60,384
Net Working Capital (A − B)	**87,231**
Add: 10% Contingency	**8,723**

Estimated Net Working Capital Required ₹ 95,954 (Approx.)

PART-B

CO3 **10M**

11. **CASE SUDY**

As A Whole