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RV COLLEGE OF ENGINEERING®

(An Autonomous Institution Affiliated to VTU)

VI Semester B. E. Regular Examinations August-2025

ELEMENTS OF FINANCIAL MANAGEMENT

(INSTITUTIONAL ELECTIVE)

Time: 03 Hours ***Maximum Marks: 100***

Instructions to candidates:

1. Answer all questions from Part A. Part A questions should be answered in first three pages of the answer book only.
2. Answer FIVE full questions from Part B. In Part B question number 2 is compulsory. Answer any one full question from 3 and 4, 5 and 6, 7 and 8, 9 and 10.
3. Use of Interest factor table is permitted.

PART-A

			M	BT	CO
1	1.1	List the three broad areas of Financial Decision making in the organization.	02	1	1
	1.2	What is meant by the term Financial Intermediary? Give an example.	02	2	1
	1.3	List the three important Financial Statements that help in understanding the financial health of a firm.	02	1	1
	1.4	Distinguish between the terms Par Value and Coupon Rate in the context of Bond/Debenture.	02	2	2
	1.5	What is meant by the term "Yield to Maturity"?	02	2	2
	1.6	List the three distinct features of Capital Budgeting.	02	1	3
	1.7	Distinguish between the terms, Authorized Capital and Issued Capital.	02	2	4
	1.8	Why is Preference Capital considered as Hybrid form of Financing.	02	2	3
	1.9	List any two types of Intercorporate Deposits.	02	1	3
	1.10	What is meant by Factoring in the context of Working Capital Financing?	02	2	3

PART-B

<table>
<tr><td>2</td><td>a</td><td>Critically assess the contribution of Financial Intermediaries in the financial inclusion and economic development of a nation.</td><td>08</td><td>3</td><td>1</td></tr>
<tr><td></td><td>b</td><td>Examine the recent growth trends in the Indian Financial System. In your answer, focus on to what extent digitization contributed to this growth.</td><td>08</td><td>3</td><td>1</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>3</td><td>a</td><td>Explain the key components of a firm's annual report.</td><td>05</td><td>2</td><td>2</td></tr>
<tr><td></td><td>b</td><td>A company decides to deposit <i>Rs.</i>20,000 at the end of each year for 5 years in an account that earns 7% annual interest, compounded annually. Calculate the future value of this annuity.</td><td>05</td><td>3</td><td>2</td></tr>
<tr><td></td><td>c</td><td>A firm expects to receive the following cash flows over the next 4 years:
<table>
<tr><th><i>Year</i></th><th><i>Cash Flow (Rs)</i></th></tr>
<tr><td>1</td><td>5,000</td></tr>
<tr><td>2</td><td>7,000</td></tr>
<tr><td>3</td><td>6,000</td></tr>
<tr><td>4</td><td>8,000</td></tr>
</table>
If the discount rate is 10%, calculate the present value of these cash flows.</td><td>06</td><td>3</td><td>2</td></tr>
</table>

OR

4 a A bond has the following features:

- Par Value = $Rs. 1{,}000$
- Coupon Rate = 8% (annual interest)
- Time to Maturity = $5\ years$
- Required Rate of Return (Discount Rate) = 10%

Calculate the value of the bond. 05 3 2

b A bond with a par value of $Rs. 1{,}000$, coupon rate of 10% (annual coupon), and 5 years to maturity is currently priced at $Rs. 920$. Calculate the approximate Yield To Maturity (YTM) using the formula approach. 05 3 2

c A firm is expected to grow at the rate of 6% per annum. The dividend expected on the firm's equity share a year hence is $Rs. 2/-$. What price will you put on it if your Required Rate of Return for this share is 14%? 06 3 2

5 a Distinguish between Market Risk and Unique Risk. Support your explanation with suitable example for each. 06 2 2

b An investor is analyzing a stock that performs differently under various economic conditions. The following data summarizes the possible states of the economy, the probability of each state, and the expected return in each state:

State of Economy	*Probability*	*Rate of Return* (%)
Boom	0.3	20
Normal	0.5	12
Recession	0.2	−5

Calculate:

(i) The expected Rate of Return

(ii) The standard Deviation of Return. 10 3 2

OR

6 a Enumerate the key phases involved in Capital Budgeting Process. 06 2 3

b A project requires an initial investment of $Rs. 50{,}000$ and is expected to generate the following cash flows over 4 years: Calculate the Internal Rate of Return (IRR) for the project using interpolation method.

Year	*Cash Flow* (*Rs.*)
1	15,000
2	18,000
3	20,000
4	25,000

10 3 3

7 a The choice of long-term finance depends heavily on the type, size, and stage of a business. Critically evaluate this statement by comparing the suitability of different long-term financing sources for: "A newly established tech startup". 08 4 4

b Highlight the major phases involved in raising long term finance through Term loans. 08 2 4

OR

8	a	What does a Stock Market Index represent? Explain the three important types of indices used.	08	2	4
	b	Explain the structure and features of the Government Securities (G-Sec) Market in India. Why are G-Secs considered low-risk investments, and what role do they play in the financial system?	08	3	4
9	a	“Working capital requirements vary significantly across industries and business models.” Critically analyze this statement by identifying and evaluating four key factors that influence working capital needs, with relevant real-world examples to support your analysis.	08	4	3
	b	Explain the three strategies followed by the organizations as part of Current assets financing policy.	08	2	3
		OR			
10	a	“The length of the operating cycle and cash cycle directly affects a firm’s liquidity and financing decisions.” Evaluate how variations in these cycles impact working capital requirements and business sustainability.	08	3	3
	b	“Efficient working capital financing is critical for maintaining business liquidity without overburdening the firm with cost or risk.” In the above context explain any four methods of working capital financing.	08	2	3