Elements of Financial Management – Question Paper Sets with Answers

SET 1

Section A: One-Mark Questions (10 × 1 = 10 Marks)

1. What is the main objective of financial management?

2. Name any two components of the financial system.

3. Define liquidity ratio.

4. What does the term ‘compounding’ mean?

5. What is the formula for Present Value?

6. What is meant by profitability ratios?

7. Who regulates the Indian capital market?

8. State any one limitation of financial statements.

9. What does a high current ratio indicate?

10. What is the time value of money?

Section B: Ten-Mark Questions (5 × 10 = 50 Marks)

1. Explain the importance and objectives of financial management in a modern organization.

2. Describe the structure and functions of the Indian financial system.

3. From the following, calculate Current Ratio and Quick Ratio:

Balance Sheet extract (in ₹ 000s):

- Current Assets: ₹ 500

- Inventory: ₹ 150

- Current Liabilities: ₹ 200

4. A person deposits ₹60,000 in a bank offering 10% interest compounded annually. What will be the value after 6 years?

5. Find the present value of ₹1,00,000 receivable after 8 years, if the discount rate is 9% compounded annually.

Answers - Set 1

- One-mark answers:

1. Wealth maximization

2. Financial institutions, Financial markets

3. Ratio showing firm’s ability to meet short-term obligations

4. Earning interest on interest

5. PV = FV / (1 + r)^n

6. Ratios assessing a company’s profit-making ability

7. SEBI

8. Ignores qualitative factors

9. Strong liquidity position

10. Value of money changes over time

- Q3. Current Ratio = 500 / 200 = 2.5; Quick Ratio = (500 – 150) / 200 = 1.75

- Q4. FV = ₹60,000 × (1.10)^6 = ₹1,06,046

- Q5. PV = ₹1,00,000 / (1.09)^8 = ₹50,501

SET 2

Section A: One-Mark Questions (10 × 1 = 10 Marks)

1. What is financial statement analysis?

2. Give an example of a capital market instrument.

3. Define compound interest.

4. What is the function of SEBI?

5. Mention any one tool used for liquidity analysis.

6. What is a financial intermediary?

7. State one advantage of time value of money.

8. Mention one objective of SEBI.

9. What is the formula for compound amount?

10. Define financial system.

Section B: Ten-Mark Questions (5 × 10 = 50 Marks)

1. Explain the role and responsibilities of a finance manager.

2. Discuss the structure of the Indian financial markets and its key segments.

3. Interpret the financial performance using the following ratios:

- Net Profit Margin: 18%, Return on Equity: 20%, Debt-Equity Ratio: 1.2, Current Ratio: 1.8

4. What will be the future value of ₹80,000 invested for 5 years at 8% compounded annually?

5. What amount should be invested now to receive ₹3,00,000 after 7 years at 10% interest compounded annually?

Answers - Set 2

- One-mark answers:

1. Analyzing financial statements to assess performance

2. Equity shares

3. Interest calculated on principal and accumulated interest

4. Regulates and develops securities market

5. Current Ratio

6. Entity linking savers and borrowers

7. Helps in investment decisions

8. Protect investors

9. FV = P × (1 + r)^n

10. A network of institutions dealing in financial services

- Q3: Interpretation:

- High profitability and efficiency in equity utilization; moderate liquidity; moderate debt level.

- Q4. FV = ₹80,000 × (1.08)^5 = ₹1,17,322

- Q5. PV = ₹3,00,000 / (1.10)^7 = ₹1,52,182

SET 3

Section A: One-Mark Questions (10 × 1 = 10 Marks)

1. Define return on capital employed (ROCE).

2. Name any one primary market instrument.

3. State one assumption of time value of money.

4. What is working capital?

5. Who are the participants in the financial system?

6. Mention one component of a financial statement.

7. Define trend analysis.

8. What is the main aim of financial management?

9. What is meant by discounting?

10. Mention any one source of long-term finance.

Section B: Ten-Mark Questions (5 × 10 = 50 Marks)

1. Distinguish between profit maximization and wealth maximization.

2. Explain the functions of key financial institutions in India.

3. Calculate and interpret:

Given:

- Equity: ₹4,00,000

- Debt: ₹2,00,000

- Total Assets: ₹6,00,000

- Current Assets: ₹2,40,000

- Current Liabilities: ₹1,20,000

Calculate Debt-Equity Ratio and Current Ratio.

4. Find the future value of ₹1,00,000 invested for 4 years at 9% interest compounded annually.

5. What is the present value of ₹5, 00,000 receivable after 5 years, if interest is 12% compounded annually?

Answers - Set 3

- One-mark answers:

1. Profit before interest and tax ÷ Capital employed × 100

2. IPO

3. Money has different values at different times

4. Short-term assets minus liabilities

5. Households, firms, government

6. Balance sheet

7. Analyzing changes over time

8. Maximize shareholder wealth

9. Calculating present value of future amount

10. Equity capital

- Q3: Debt-Equity Ratio = 2,00,000 / 4,00,000 = 0.5; Current Ratio = 2,40,000 / 1,20,000 = 2.0

- Q4: FV = ₹1,00,000 × (1.09)^4 = ₹1,26,531

- Q5: PV = ₹5,00,000 / (1.12)^5 = ₹2,83,197