| **Date** | **:** | **29th April 2025** | **CIE – I** | **Max. Marks** | **:** | **10 + 50** |
| --- | --- | --- | --- | --- | --- | --- |
| **Semester** | **:** | **6th** | **UG** | **Duration** | **:** | **30 + 90 Min** |
| **Course Title: ELEMENTS OF FINANCIAL MANAGEMENT** | | | | **Course Code** | **:** | IM266TEQ |

**SCHEME & SOLUTIONS**

| **Sl. No** | **Solutions with Scheme** | **M** |
| --- | --- | --- |
| **Part – A** | | |
|  | **Distinction between Financial Accounting and Financial Management (Scope):** *Financial Accounting* focuses on recording, summarizing, and reporting past financial transactions, whereas *Financial Management* deals with planning and managing a firm’s financial resources to achieve financial goals. | 01 |
|  | **Main function of the Reserve Bank of India:** The main function of RBI is to regulate the issue and supply of the Indian Rupee and maintain monetary stability in India. | 01 |
|  | **Full form of NABARD:** National Bank for Agriculture and Rural Development. | 01 |
|  | **City where NSE is located:** Mumbai. | 01 |
|  | **Regulatory body for the insurance sector in India:** Insurance Regulatory and Development Authority of India (IRDAI). | 01 |
|  | **Meaning of Financial Intermediaries:** Financial intermediaries are institutions that channel funds between savers and borrowers, such as banks, insurance companies, and mutual funds. | 01 |
|  | **What is a Fixed Asset?** Fixed assets are long-term tangible assets used in business operations, not likely to be converted into cash within a year. | 01 |
|  | **Example of a Non-current Asset:** Land or Building. | 01 |
|  | **Definition of Time Value of Money:** Time Value of Money (TVM) means that a sum of money has greater value now than the same sum in the future due to its potential earning capacity. | 01 |
|  | **Formula for Present Value of an Annuity:** PV=P× (1− (1+r) −n/r) where, PV= Present Value, P = Periodic Payment, r= Interest Rate per Period, n = Number of Periods. | 01 |
| **Part – B** | | |
| 1. | **Functions and Classification of Financial Markets**   * **Functions:**   + Mobilization of savings and channeling them into productive investments.   + Facilitating price discovery.   + Providing liquidity to financial assets.   + Reducing the cost of transactions. * **Classification:**   + **By maturity:** Money Market (short-term), Capital Market (long-term).   + **By nature of claim:** Debt Market, Equity Market.   + **By stage of issue:** Primary Market (new issues), Secondary Market (trading of existing securities). * **Primary Market:** A platform where new securities are issued and sold for the first time to raise capital for issuers. | 10 |
| 2a. | **Objectives of Financial Management**   * **Key Objectives:**   + Profit maximization   + Wealth (value) maximization   + Ensuring liquidity   + Optimal utilization of funds * **Why Shareholder’s Wealth Maximization is Preferred:**   + Considers risk and time value of money.   + Focuses on long-term growth.   + Increases market value of the firm.   + Avoids short-termism associated with profit maximization. | 10 |
| 3 a. | Given: Payment per year =₹7000= ₹7000, Years =20= 20, Interest r=6%r = 6\% and 8%8\%  Formula:  PV=P×(1−(1+r) −n/r)  **At 6%:**  PV=7000×(1−(1.06)−200.06)≈7000×11.4699=₹80,289.30   * **At 8%:**   PV=7000×(1−(1.08)−200.08)≈7000×9.8181=₹68,726.70 | 05 |
| 3b. | **Present Value of Uneven Cash Flows**   | **Year** | **Cash Flow (₹)** | **4% PV Factor** | **25% PV Factor** | | --- | --- | --- | --- | | 1 | 100 | 0.9615 | 0.8000 | | 2 | 500 | 0.9246 | 0.6400 | | 3 | 1000 | 0.8890 | 0.5120 |  * **At 4%:**   PV=100(0.9615)+500(0.9246)+1000(0.8890)=₹96.15+₹462.30+₹889=₹1,447.45   * **At 25%:**   PV=100(0.8)+500(0.64)+1000(0.512)=₹80+₹320+₹512=₹912 | 05 |
| 4 a. | **Three Broad Areas of Financial Decision Making**   1. **Investment Decisions (Capital Budgeting):**    * E.g., A manufacturing firm deciding on setting up a new plant using cost-benefit analysis. 2. **Financing Decisions:**    * E.g., A start-up choosing between issuing equity or taking a loan. 3. **Dividend Decisions:**    * E.g., An IT Company deciding how much profit to distribute as dividends vs. retain for future projects.   Each decision involves trade-offs among risk, return, and cost and directly impacts the firm’s financial health and value. | 10 |
| 5 a. | **. Future Value with Compound Interest**  Given: Principal P=₹1000P = ₹1000, Rate r=10%r = 10\%, Time n=8,12n = 8, 12 years.  Formula:  FV=P×(1+r)n  After 8 years: FV=1000×(1.10)8=₹2,143.59   * After 12 years: * FV=1000×(1.10)12=₹3,138.43 | 05 |
| b. | **Present Value for Future Education Cost**  Future Value =₹1,000,000= ₹1,000,000, Rate r=12%r = 12\%, Time n=10n = 10 years.  Formula:  PV=FV(1+r)n=1,000,000(1.12)10≈1,000,000\*3.1058=₹322,000.24 | 05 |