

Enrollment No.....



Faculty of Engineering
End Sem Examination Dec 2024
OE00087 Financial Management

Programme: B.Tech.

Branch/Specialisation: All

Duration: 3 Hrs.**Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d. Assume suitable data if necessary. Notations and symbols have their usual meaning.

		Marks	BL	PO	CO	PSO
Q.1	i. The primary goal of financial management is:	1	01	12	01	
	(a) Maximization of profits					
	(b) Minimization of costs					
	(c) Maximization of shareholder wealth					
	(d) Increasing sales					
	ii. Which of the following is the time value of money concept?	1	01	12	01	
	(a) Present value					
	(b) Future value					
	(c) Annuity factor					
	(d) All of these					
	iii. The price of a bond is determined by:	1	02	11	02	
	(a) The coupon rate only					
	(b) The face value only					
	(c) The coupon rate and the prevailing interest rates					
	(d) The maturity period alone					
	iv. Return on investment is typically measured by:	1	02	07	02	
	(a) The cost of capital					
	(b) The profit margin of the company					
	(c) The percentage increase in value over a time period					
	(d) The market capitalization					
	v. Operating leverage is a measure of:	1	02	12	03	
	(a) The company's ability to generate revenue					
	(b) The relationship between fixed costs and variable costs					
	(c) The company's fixed costs relative to its sales					
	(d) The company's tax rate					

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vi.	Cost of capital is:	1	01	06	03
	(a) The amount of money a company raises through debt				
	(b) The required return on a company's investments to satisfy its investors				
	(c) The total capital invested in the business				
	(d) The tax paid by the company on profits				
vii.	Working capital is defined as:	1	01	10	04
	(a) Long-term liabilities minus long-term assets				
	(b) Current assets minus current liabilities				
	(c) Total assets minus total liabilities				
	(d) Total sales minus total expenses				
viii.	A company can improve its working capital by:	1	02	10	04
	(a) Reducing its short-term liabilities				
	(b) Increasing its long-term liabilities				
	(c) Reducing its inventory and receivables				
	(d) Expanding its long-term assets				
ix.	Which of the following is a reason for holding cash?	1	02	06	05
	(a) To pay off long-term debt				
	(b) To satisfy the precautionary motive, ensuring liquidity for unexpected expenses				
	(c) To invest in fixed assets				
	(d) To reduce the company's financial risk				
x.	A company offering a longer credit period to customers may:	1	02	11	05
	(a) Increase its sales but also face a higher risk of late payments				
	(b) Decrease its risk of bad debts				
	(c) Have no impact on its cash flow				
	(d) Improve its profitability in the short term				
Q.2	i. Define financial management.	2	01	12	01
	ii. What is the difference between simple interest and compound interest?	3	01	11	01
	iii. Discuss the goals of financial management.	5	01	06	01
OR	iv. What is the time value of money? Explain with an example how compound interest works.	5	02	10	01
Q.3	i. Define risk and return.	2	01	07	02

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	ii. Discuss the valuation of common stock, preferred stock, and bonds. Provide examples and explain how bond prices fluctuate with interest rates.	8	02	11	02
OR	iii. Discuss the Capital Asset Pricing Model (CAPM) with its applications and assumptions. How it is used to assess the expected return on a security?	8	02	10	02
Q.4	i. What is financial leverage?	3	01		03
	ii. Explain the concepts of operating leverage, financial leverage, and total leverage. How do these types of leverage affect a company's profitability and risk?	7	02	08	03
OR	iii. Explain how the cost of capital is computed for equity, preference shares, and debt.	7	02	11	03
Q.5	i. What factors influence the estimation of working capital requirements?	4	02	12	04
	ii. How should a firm manage its current assets and current liabilities to ensure liquidity?	6	02	09	04
OR	iii. Discuss the concept of working capital management and its importance.	6	01	08	04
Q.6	Attempt any two:				
	i. What are the motives for holding cash? How does a firm decide the optimal cash balance?	5	02	09	05
	ii. Explain how effective cash management practices can improve a firm's financial health.	5	02	08	05
	iii. Provide an overview of strategies such as extending the payment period to suppliers, negotiating better credit terms with vendors, and postponing discretionary spending.	5	02	09	05

Marking Scheme
OE00087 Financial Management (T)

Q.1	i)	The primary goal of financial management is:	1
	c)	Maximization of shareholder wealth	
	ii)	d) All of the above	1
	iii)	c) The coupon rate and the prevailing interest rates	1
	iv)	c) The percentage increase in value over a time period	1
	v)	c) The company's fixed costs relative to its sales	1
	vi)	b) The required return on a company's investments to satisfy its investors	1
	vii)	b) Current assets minus current liabilities	1
	viii)	A company can improve its working capital by:	1
	c)	Reducing its inventory and receivables	
	ix)	b) To satisfy the precautionary motive, ensuring liquidity for unexpected expenses	1
	x)	A company offering a longer credit period to customers may:	1
	a)	Increase its sales but also face a higher risk of late payments	
Q.2	i.	Define financial management.	2
	ii.	What is the difference between simple interest and compound interest? At least 3 differences (1*3=3)	3
	iii.	Discuss the goals of financial management. At least 5 goals. (1*5)	5
OR	iv.	What is the time value of money? 2M Explain with an example how compound interest works. 3M	5
Q.3	i.	Define risk and return.	2
	ii.	Discuss the valuation of common stock, preferred stock, and bonds. 4M Provide examples and explain how bond prices fluctuate with interest rates. 4M	8
OR	iii.	Discuss the Capital Asset Pricing Model (CAPM) with its applications and assumptions. 4M	8

How it is used to assess the expected return on a security? 4M

Q.4	i.	What is financial leverage?	3
	ii.	Explain the concepts of operating leverage, financial leverage, and total leverage. 4M How do these types of leverage affect a company's profitability and risk? 3M	7
OR	iii.	Explain how the cost of capital is computed for equity, preference shares, and debt.	7
Q.5	i.	What factors influence the estimation of working capital requirements?	4
	ii.	How should a firm manage its current assets and current liabilities to ensure liquidity?	6
OR	iii.	Discuss the concept of working capital management and its importance.	6
Q.6		Attempt any two:	
	i.	What are the motives for holding cash? 2M How does a firm decide the optimal cash balance? 3M	5
	ii.	explain how effective cash management practices can improve a firm's financial health.	5
	iii.	Provide an overview of strategies such as extending the payment period to suppliers, negotiating better credit terms with vendors, and postponing discretionary spending.	5
