



Faculty of Engineering
End Sem Examination Dec 2024
OE00087 Financial Management

Programme: B.Tech.

Branch/Specialisation: All

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

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					

	[2]		[3]
vi.	Cost of capital is:	1 01 06 03	ii. Discuss the valuation of common stock, preferred stock, and bonds. Provide examples and explain how bond prices fluctuate with interest rates.
	(a) The amount of money a company raises through debt		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?
	(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	Q.4 i. What is financial leverage?
	(a) Long-term liabilities minus long-term assets		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?
	(b) Current assets minus current liabilities		OR iii. Explain how the cost of capital is computed for equity, preference shares, and debt.
	(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	Q.5 i. What factors influence the estimation of working capital requirements?
	(a) Reducing its short-term liabilities		ii. How should a firm manage its current assets and current liabilities to ensure liquidity?
	(b) Increasing its long-term liabilities		OR iii. Discuss the concept of working capital management and its importance.
	(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	Q.6 Attempt any two:
	(a) To pay off long-term debt		i. What are the motives for holding cash? How does a firm decide the optimal cash balance?
	(b) To satisfy the precautionary motive, ensuring liquidity for unexpected expenses		ii. Explain how effective cash management practices can improve a firm's financial health.
	(c) To invest in fixed assets		iii. Provide an overview of strategies such as extending the payment period to suppliers, negotiating better credit terms with vendors, and postponing discretionary spending.
	(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	

Marking Scheme

OE00087 Financial Management (T)

				How it is used to assess the expected return on a security? 4M
Q.1	i) The primary goal of financial management is: c) Maximization of shareholder wealth ii) d) All of the above	1	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
	iii) c) The coupon rate and the prevailing interest rates	1		OR iii. Explain how the cost of capital is computed for equity, preference shares, and debt. 7
	iv) c) The percentage increase in value over a time period	1		
	v) c) The company's fixed costs relative to its sales	1	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
	vi) b) The required return on a company's investments to satisfy its investors	1		OR iii. Discuss the concept of working capital management and its importance. 6
	vii) b) Current assets minus current liabilities	1		
	viii) A company can improve its working capital by: c) Reducing its inventory and receivables	1	Q.6	i. Attempt any two: 5
	ix) b) To satisfy the precautionary motive, ensuring liquidity for unexpected expenses	1		ii. What are the motives for holding cash? 2M How does a firm decide the optimal cash balance? 3M
	x) A company offering a longer credit period to customers may: a) Increase its sales but also face a higher risk of late payments	1		iii. Explain how effective cash management practices can improve a firm's financial health.
Q.2	i. Define financial management.	2		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
	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		