

St. Clare College

Autonomous, Bengaluru

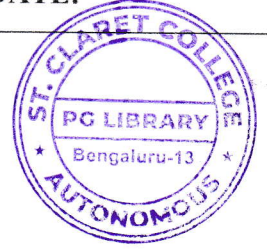
PG END SEMESTER EXAMINATION-SEPT 2026

MBA SECOND SEMESTER

MBA2524: FINANCIAL MANAGEMENT

ROLL NO:

DATE:



TIME: 3 hours.

MAX. MARKS: 70

This paper contains FOUR printed pages and FOUR parts

Instructions:

1. Verify and ensure that the question paper is completely printed.
2. Any discrepancies or questions about the exam paper must be reported to the COE within 1 hour after the examination.
3. Students must check the course title and course code before answering the questions.

PART-A

Answer SEVEN questions out of NINE. Each answer carries TWO marks.

[2x7 = 14]

1. State any two financial goals of a firm.
2. What is meant by the term "Agency Problem" in financial management?
3. Define continuous compounding.
4. Define venture capital and mention any two of its features.
5. What is Financial Break-even Point?
6. Define Capital Budgeting. Why is it significant for long-term decision-making?
7. What is the Profitability Index (PI)? Give its formula.
8. List any four factors that determine the working capital requirements of a company.
9. What is a bonus share and how is it different from a stock split?

PART-B

Answer any FOUR questions out of SIX. Each answer carries FIVE marks.

[4x5=20]

10. Discuss the emerging role of a finance manager in India with suitable examples.
11. A person invests ₹20,000 at 12% annual compound interest for 3 years. Calculate the future value.
12. XYZ Ltd. plans to raise ₹4,00,000 for expansion:

- Debt = ₹1,50,000 at 10% (before tax)
- Equity = ₹2,50,000
- Dividend per share last year = ₹5
- Market price per share = ₹100
- Growth rate of dividend = 5%
- Tax rate = 30%

Required:

Compute the after-tax cost of debt, cost of equity, and the Weighted Average Cost of Capital (WACC).

13. Explain the principles of Capital Budgeting. Why are methods like IRR and NPV considered superior to the Payback Period method?
14. Discuss the different sources of working capital available to a business. Distinguish between long-term and short-term sources.
15. The following data are available for ZB Ltd.:
- Earnings per share = ₹10
 - Dividend per share (current) = ₹4
 - Cost of equity (k) = 12%
 - Expected return on reinvested earnings (r) = 15%
 - Retention ratio = 60%
- a) Calculate the expected growth rate of dividends.
- b) Calculate the market price per share using Gordon's dividend growth model.

PART-C

Answer any TWO questions out of FOUR. Each answer carries TEN marks.

[10X2=20]

16. Firms A and B are identical except that firm A is not levered while firm B is levered. The following data relate to them:

Particulars	Firm A	Firm B
Assets (₹)	40,00,000	40,00,000
Debt Capital (10% interest)	0	16,00,000
Equity Share Capital (₹)	40,00,000	24,00,000
Number of Shares	4,00,000	2,40,000
Rate of Return on Assets	18%	18%

Required:

- a) Calculate EPS for both firms, assuming tax rate is 40%.
- b) If Firm B increases its debt level to 60% of total capital employed, comment whether it will be advantageous.

17. A company is considering two mutually exclusive projects. The details are as follows:

Particulars	Project X	Project Y
Initial Investment (₹)	80,000	1,20,000
Life	5 years	5 years
Annual Net Cash Inflows (₹)	22,000	30,000
Scrap Value (₹)	8,000	12,000

Additional Information:

- The cost of capital is 12%.
- Present Value of an annuity of ₹1 for 5 years at 12% is 3.605.
- PV factor for ₹1 at the end of year 5 at 12% is 0.567.

State which project should be selected and why.

18. A company provides the following budget details for the year:

- a) Sales: ₹30 lakhs (20% cash sales, balance on credit) – 50,000 units
- b) Raw material cost: 55% of sales value
- c) Labour cost: ₹5 per unit
- d) Variable overheads: ₹1 per unit
- e) Fixed overheads: ₹3 lakhs (including ₹80,000 as depreciation)
- f) Stock levels:
 - Raw materials: 2 weeks
 - Work-in-progress: 1 week (Material 100%, Labour & Overheads 50%)
 - Finished goods: 1 week
- g) Debtors are allowed credit for 3 weeks
- h) Creditors allow 3 weeks credit
- i) Cash-in-hand required: ₹40,000

Prepare the Working Capital Requirement for the year. State assumptions clearly.

19. Explain the relevance and irrelevance theories of dividend policy. Discuss the key assumptions and implications of Walter's Model and Gordon's Model.

PART-D

Answer the following.

[16X1=16]

20. A company is evaluating a project that requires an initial investment of ₹5,00,000 and an additional working capital of ₹75,000. The project has an estimated life of 5 years with no salvage value. The expected Earnings Before Depreciation and Tax (EBDT) for each year are as follows:

Year	1	2	3	4	5
EBDT (₹)	2,40,000	2,60,000	2,20,000	1,80,000	1,40,000

Additional Information:

- Depreciation is charged on straight-line basis over 5 years.
- The company's income tax rate = 30%.
- The cost of capital = 12%.
- Present Value (PV) factors are given:

Year	1	2	3	4	5
PV @ 12%	0.893	0.797	0.712	0.636	0.567
PV @ 20%	0.833	0.694	0.579	0.482	0.402
PV @ 25%	0.800	0.640	0.512	0.410	0.328

You are required to calculate:

- Net Present Value (NPV)
- Payback Period
- Internal Rate of Return (IRR)
- Profitability Index (PI)
