KAMARAJ COLLEGE (Autonomous)

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(Affiliated to Manonmaniam Sundaranar University, Tirunelveli)

(5 Pages) **Reg. No:……**

Question Code: 26E04214 **Course Code: 25PMBA26**

PG Degree - End Semester Examinations, April 2026

Second Semester

M.B.A

Financial Management

(For those who joined in June 2025 onwards)

Time: 3Hours **Maximum: 75 Marks**

PART – A (5 × 4 = 20 Marks)

Answer ALL Questions

Answer should not exceed 250 words.

CO:3 K:4 1. Financial Management is concerned with solutions of major decisions a firm must make: Investment, Financing and Dividend.

Explain this statement highlighting the inter relationship among these decisions.

CO:4 K:5 2. An investor deposits Rs. 100 in a bank for 5 years at 8 per cent interest.

Find out the amount which he will have in his account if interest is compounded (a) Annually (b) Semin annually (c) Quarterly and (d) Monthly

CO:3 K:4 3. Cost of existing share capital and fresh issue of capital are always same.

Do you agree? Give reasons.

CO:2 K:3 4. State Modigliani and Miller Model relating to dividend policy.

CO:4 K:5 5. Discuss the main forms of working capital advanced by banks. What kind of security required for them?

PART – B (5 X 8 = 40Marks)

Answer ALL Questions choosing either (a) or (b).

Answer should not exceed 500 words.

CO:3 K:4 6. (a) Explain briefly the concepts of Investment decisions.

(i) Growth is a realistic objective of a join stock company for financing decision making. Comment

(ii) The finance managers has no role to play in a dot com company. Comment.

(OR)

(b) A growing startup expects 25% annual sales growth but has limited internal funds.

Analyze the financial planning issues and suggest suitable financing strategies.

CO:3 K:4 7. (a) Given the cash flows after tax (CFAT) for two machines, evaluate their feasibility by calculating the Net Present Value (NPV), Profitability Index (PI), Payback Period and Average Rate of Return. Compare and rank the projects based on your analysis based on the following data:

Two machines A and B each costing ₹5 lakhs have a life of 5 years and follow straight line method of depreciation with nil residual value. Use a discount rate of 10%:

Year	Machine A (₹ in lakhs)	Machine B (₹ in lakhs)	PVIF @10%
1	1.5	0.5	0.9091
2	2.0	1.5	0.8264
3	2.5	2.0	0.7513
4	1.5	3.0	0.6830
5	1.0	2.0	0.6209

(OR)

(b) Suppose a firm is considering replacing an old machine with a new one. The firm does not anticipate that any new revenues will be created by the replacement since demand for the product generations by both the machines is the same. However, in the CFAT work sheet used in evaluating the proposal, the analysis shows positive CFBT in the operating cash flow section. Comment what creates operating CFBT in this situation?

CO:3 K:4 8. (a) Amaranth Cements Ltd. has the following capital structure details based on book value and market value, assuming a tax rate of 50%**?**

Particulars	Market value (₹ in Lakhs)	Book value (₹ in Lakhs)	Before Tax Cost %
Equity share capital	80	120	18
Preference share capital	30	20	15
Long term loan	40	40	14

i) Compute the Weighted Average Cost of Capital (WACC) under both approaches.

ii) Evaluate whether WACC using book value and market value will always be the same.

iii) Recommend which approach should be preferred.

(OR)

(b) The capital structure of Peerless Company consists of equity shares of ₹30,00,000(₹100 par value per share) and ₹30,00,000 debentures (10 % interest). The number of units sold has increased from the present 3,00,000 units to 3,20,000 units. The selling price per unit is ₹10 and variable costs are ₹6 per unit. Fixed expenses (excluding interest and tax) amount to ₹2,00,000. If the income tax is at 50%, analyze the following and comment on the results:

(i) The degree of financial leverage at 3,00,000 units & 3,50,000 units.

(ii)The degree of operating leverage at 3,00,000 units & 3,50,000 units.

CO:4 K:5 9. (a) Analyze the factors influencing dividend policy decisions in a firm.

(OR)

(b) Thames Ltd. has a capitalization rate of 10%, its Earnings Per Share is ₹10. Assuming the rate of return on investments are (i) 20% (ii)10% and (iii) 5%, analyze the effect of dividend policy on market price using Walters Model using Dividend pay-out ratio of 0%,25%,50%,75% and 100%. Determine whether the firm should distribute dividends or retain earnings.

CO:5 K:3

10. (a) Given a production level of 70,000 units, compute the working capital requirement using the individual component method from the following data:

Cost structure per unit (₹)	
Raw material	52.0
Direct labour	19.0
Overheads (including depreciation of ₹10)	39.0
Total cost	110
Profit margin	20
Selling price	130

Average raw material in stock: 1 month, average work in process: ½ month. Credit allowed by suppliers: 1 month, credit allowed to debtors: 2months. Time lag: in payment of wages is 1.5 weeks and Overheads- 1month. One-fourth of sales are on cash basis. Cash balance is expected to be ₹1,20,000

(OR)

(b) Explain and illustrate the turnover method of working capital requirement of borrowers.

PART – C (1 X 15 = 15 Marks)

CO:5 11. **Case Study:**

K:6

Tata Green Technologies Ltd., an Indian company specializing in sustainable energy solutions, is planning to expand its operations. The company has identified two mutually exclusive projects – Project SunPower (solar energy expansion) and Project Wind Force (wind energy expansion). Each project requires a significant initial investment and is expected to generate cash flows over the next 5 years. The company's required rate of return is 12%, and the available capital budget allows for the selection of only one project.

Details	Project SunPower (Solar) (crores)	Project Wind Force (Wind) (crores)
Initial Investment	₹20	₹18
Year 1	₹4.5	₹3.8
Year 2	₹5.2	₹4.4
Year 3	₹6.0	₹5.1
Year 4	₹6.5	₹5.8
Year 5	₹5.8	₹5.0

Required

- ❖ Calculate the NPV for both projects using a discount rate of 12%.
- ❖ Determine the IRR for both projects and compare them.
- ❖ Compute the Profitability Index (PI) for both projects.

Evaluate the project should Tata Green Technologies select? Justify your decision**.**