



MBA DEGREE EXAMINATIONS: JANUARY 2023

(Regulation 2021)

First Semester.

MASTER OF BUSINESS ADMINISTRATION

P21MBM1506: FINANCIAL MANAGEMENT

COURSE OUTCOMES

CO1: Explain the basic concepts of financial management.

CO2: Display (Select) the best investment option among alternatives and choose on the best source of funds through leverage

CO3: Construct the optimum capital structure and the working capital requirements

Time: Two Hours

Maximum Marks: 50

PART A (5Q x 10Marks = 50 Marks)

- 1 a) Discuss the basic financial decisions of an organization? How do they involve risk-return trade off? (5 marks) CLO1 [K₆]
“An individual’s time preference for money may be expressed as a rate.” Explain (5 marks) CLO1 [K₅]
- (OR)**
- b) Highlight the importance and significance of Capital Budgeting decisions. Elaborate on the merits and the demerits of Pay-Back period method. CLO2 [K₆]
- 2 a) Why are Discounted Cash flow techniques popular in evaluating Capital Budgeting? Can you say NPV method is superior to IRR method? Justify. CLO2 [K₅]
- (OR)**
- b) Equipment A has a cost of Rs.75,000 and net cash flow of Rs.20,000 per year for 6 years. A substitute equipment B would cost Rs.50,000 and generate net cash flow of Rs.14,000 per year for 6 years. The required rate of return of both equipments is 11%. Calculate the IRR and NPV for the equipments. Which equipment should be accepted and Why? CLO2 [K₅]

- 3 a) Explain the problems faced in determining the cost of capital. How is cost of capital relevant in Capital Budgeting decisions? CLO2 [K₅]
- (OR)**
- b) State the common aspects between Term loans and Debentures in India. Explain the comparative merits and demerits of both. CLO2 [K₅]
- 4 a) “Leverage is the amount of debt a company has in its mix of debt and equity in its capital structure”. How does Leverage affect the Cash flow and risk of a firm? Explain the types of Leverage and their significance. CLO3 [K₃]
- (OR)**
- b) Write a brief note on the view of Traditional Approach on the relationship between Capital Structure and the Value of the firm with suitable illustrations. CLO3 [K₂]
- 5 a) “According to Walter’s model the optimum payout ratio can be either zero or hundred percent”. Explain the circumstances when this is true. CLO3 [K₅]
- (OR)**
- b) Define Working Capital management. Discuss the significance of Working Capital Management for a manufacturing firm. CLO3 [K₆]
