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NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA

(An Autonomous Institute Affiliated to AKTU, Lucknow)

B.Tech

SEM: III - THEORY EXAMINATION (2024- 2025)

Subject: Financial Management

Time: 2 Hours

Max. Marks: 50

General Instructions:

IMP: Verify that you have received the question paper with the correct course, code, branch etc.

1. This Question paper comprises of three Sections -A, B, & C. It consists of Multiple Choice Questions (MCQ's) & Subjective type questions.

2. Maximum marks for each question are indicated on right -hand side of each question.

3. Illustrate your answers with neat sketches wherever necessary.

4. Assume suitable data if necessary.

5. Preferably, write the answers in sequential order.

6. No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.

SECTION-A

15

1. Attempt all parts:-

- 1-a. Identify the primary goal of financial management. (CO1, K2) 1
- (a) Minimizing costs
 - (b) Maximizing shareholder wealth
 - (c) Increasing sales revenue
 - (d) Improving employee satisfaction
- 1-b. Identify a component of a company's capital structure. (CO2, K2) 1
- (a) Accounts receivable
 - (b) Inventory
 - (c) Debt
 - (d) Prepaid expenses
- 1-c. Interpret a DOL of 3. (CO3, K3) 1
- (a) A 1% change in sales will result in a 0.33% change in EBIT.
 - (b) A 1% change in sales will result in a 3% change in EBIT.
 - (c) A 3% change in sales will result in a 1% change in EBIT.
 - (d) The DOL has no impact on a company's profitability.
- 1-d. Interpret a payback period of 3 years. (CO4, K3) 1
- (a) The investment will generate a profit in 3 years.
 - (b) The investment will generate enough cash flows to cover its initial cost in 3 years.
 - (c) The investment will be worthless after 3 years.

- (d) The payback period is irrelevant in capital budgeting.
- 1-e. State the components of working capital. (CO5, K2) 1
- (a) Only current assets.
- (b) Only current liabilities.
- (c) Both current assets and current liabilities.
- (d) Fixed assets and long-term liabilities.
2. Attempt all parts:-
- 2.a. Define compounding and provide a scenario demonstrating its application in finance. (CO1, K1) 2
- 2.b. Discuss the factors that influence a company's cost of debt. (CO2, K2) 2
- 2.c. A company has a DOL of 2.5. Interpret the meaning of this value in terms of the relationship between sales and operating income. (CO3, K3) 2
- 2.d. Illustrate the significance of considering the time value of money in capital budgeting decisions. (CO4, K4) 2
- 2.e. Describe the economic order quantity (EOQ) model and its role in inventory management. (CO5, K2) 2

SECTION-B

15

3. Answer any three of the following:-

- 3-b. A company is considering issuing new bonds to finance an expansion project. Analyze the factors that the company should consider when determining the appropriate coupon rate and maturity date for the bonds. (CO2, K4) 5
- 3-a. A company is considering two mutually exclusive projects with different lifespans and cash flow patterns. Explain how the company can use time value of money techniques, such as net present value (NPV) and internal rate of return (IRR), to make an informed investment decision. (CO1, K4) 5
- 3.c. A company has a DOL of 3 and a DFL of 2. If the company's sales increase by 5%, Find the percentage change in the company's EPS. (CO3, K4) 5
- 3.d. A company is considering a project that requires an initial investment of \$1,000,000. The project is expected to generate annual cash flows of \$250,000 for 6 years. The company's cost of capital is 8%. Conduct a sensitivity analysis to determine how the NPV of the project would be affected by a 10% decrease in annual cash flows and a 2% increase in the cost of capital. (CO4, K4) 5
- 3.e. Analyze the impact of globalization on working capital management. Discuss the challenges and opportunities that globalization presents for managing working capital in a multinational corporation. (CO5, K2) 5

SECTION-C

20

4. Answer any one of the following:-

- 4-a. Discuss the core principles of finance and how they guide financial decision-making in a business setting. (CO1, K2) 4
- 4-b. Critically evaluate the arguments for and against profit maximization as the 4

primary objective of a company. Is wealth maximization provide a more comprehensive framework. Explain. (CO1, K4)

5. Answer any one of the following:-

- 5-a. Explain the concept of the cost of capital and its importance in making long-term investment decisions. Discuss how a company's cost of capital serves as a benchmark for evaluating potential projects. (CO2, K2) 4
- 5-b. Discuss the relationship between risk and return in the context of investment. Explain how investors' attitudes toward risk influence their required rates of return. (CO2, K4) 4

6. Answer any one of the following:-

- 6-a. Suppose we have a company called ABC Corp. which manufactures electronic gadgets. The company is evaluating how to finance its operations and whether taking on more debt will improve its returns. Here's the financial data for ABC Corp.: (CO3, K4) 4

- Sales Revenue: \$2,000,000
- Variable Costs: \$1,000,000
- Fixed Costs: \$400,000
- Interest Expense: \$50,000
- Tax Rate: 30%
- Equity: \$600,000

Calculate the following leverage measures:

1. Operating Leverage
2. Financial Leverage
3. Combined Leverage

- 6-b. Explain the concept of the optimal capital structure and its relationship to leverage. Discuss how a company can balance the benefits and risks of leverage to minimize its cost of capital. (CO3, K3) 4

7. Answer any one of the following:-

- 7-a. Discuss the importance of capital budgeting in achieving a company's long-term financial goals. Explain how capital budgeting decisions can affect a company's growth, profitability, and risk profile. (CO4, K2) 4
- 7-b. ABC Manufacturing is considering purchasing new machinery to increase production capacity. The initial investment required for the machinery is \$1,200,000. The machinery is expected to generate the following cash flows for the next 5 years: (CO4, K4) 4

- Year 1 Cash Flow: \$350,000
- Year 2 Cash Flow: \$400,000
- Year 3 Cash Flow: \$450,000

- Year 4 Cash Flow: \$500,000
- Year 5 Cash Flow: \$550,000

The company's required rate of return (discount rate) is 10%.

Calculate:

1. NPV (Net Present Value): This will help determine whether the project creates value.
2. Payback Period: The time required for the project to recover its initial investment.

8. Answer any one of the following:-

- 8-a. Explain the crucial role of working capital management in a company's overall financial health and success. Discuss how effective working capital management can enhance profitability, liquidity, and operational efficiency. (CO5, K3) 4
- 8-b. Discuss the components of a company's cash conversion cycle (CCC) and their interrelationships. Explain how each component—inventory turnover, accounts receivable turnover, and accounts payable turnover—affects the CCC and a company's liquidity. (CO5, K3) 4

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