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MASTER OF BUSINESS ADMINISTRATION (M.B.A.)
EXAMINATION: MAY - 2025
SEMESTER - II
Sub.: Financial Management (MBA204/MBA24-204)

Date : 20/05/2025**Total Marks : 60****Time: 2.00pm to 4.30pm**

- Instructions:** 1) All questions are compulsory.
 2) Figures to the right indicate full marks.

Q. 1. Write Short notes on (Any Three) (15)

1. Finance and its relation with other disciplines
2. Functions of Finance Manager
3. Estimation of working capital requirement
4. Trading on Equity
5. Tools of evaluation of a project

Q. 2. Answer in detail (Any One) (10)

1. Can you explain the role of business finance in facilitating growth, innovation, and sustainability in organizations?
2. How do various techniques of financial statement analysis help in evaluating different aspects of a company's performance and financial position?

Q. 3. Answer in detail (Any One) (10)

1. Identify and discuss the internal factors that influence the level of working capital in a company.
2. XYZ Manufacturing Ltd. is planning to produce 60,000 units of its product in the upcoming year. The cost structure per unit is as follows:

Raw Materials	Direct Labour	Overheads (including depreciation ₹5)	Selling Price
₹ 40	₹ 25	₹ 35	₹ 120

The company has provided the following data regarding the holding and credit periods:

- a) Raw materials in stock: 1 month
- b) Work-in-progress: 0.5 month (50% completion for all costs)
- c) Finished goods in stock: 1 month
- d) Debtors collection period: 1.5 months
- e) Creditors for raw materials: 1 month
- f) Wages and overheads are paid after a time lag of 0.5 month
- g) Minimum cash balance desired: ₹15,000

Estimate the working capital requirement of the company on a cash cost basis.

Q. 4. Answer in detail (Any One) (10)

1. Describe the Internal Rate of Return (IRR) method for assessing investment projects. How is IRR calculated, and how is it interpreted compared to the cost of capital?

- 2 The following financial ratios relate to Gamma Industries Ltd. and Delta Corp. for the year ending 31st March 2024:

Ratio	Gamma Industries	Delta Corp.
Current Ratio	1.6:1	2.2:1
Quick Ratio	1.1:1	1.9:1
Gross Profit Margin (%)	40%	35%
Net Profit Margin (%)	10%	14%

You are required to attempt the following :

- Comment on the liquidity position of Gamma Industries and Delta Corp.
- Evaluate the profitability position of both companies.
- Suggest which company appears to be better managed in terms of short-term obligations and profit generation.

- Q. 5.** ABC Enterprises is a leading company in the consumer electronics sector. With increasing market demand, the company is considering launching a new product line. However, before moving forward, the management must conduct a financial analysis to assess the feasibility of the expansion, manage working capital efficiently, determine the best capital structure, and evaluate the investment using capital budgeting techniques. **(15)**

The finance team performed an in-depth analysis of ABC Enterprises' financial statements using comparative and ratio analysis. The results showed a steady revenue growth of 12% over the past three years. However, the profit margin had slightly declined due to rising production and marketing expenses. The company's current ratio was 2.0, indicating strong liquidity, while its debt-to-equity ratio stood at 0.9, suggesting a balanced financial structure. Although ABC Enterprises had strong liquidity, its inventory turnover ratio had decreased, leading to higher inventory holding costs. Additionally, a significant portion of cash was tied up in accounts receivable due to delayed payments from distributors. To address these issues, the finance team suggested streamlining inventory management, implementing stricter credit policies, and offering early payment discounts to customers.

To finance the new product line, ABC Enterprises evaluated multiple funding options, including raising debt, issuing new equity, and using retained earnings. The management was concerned about maintaining financial stability while minimizing the cost of capital. After analyzing its Weighted Average Cost of Capital (WACC), the company decided on a financing mix of 50% debt and 50% retained earnings, as it balanced financial risk while keeping ownership intact.

The company used various capital budgeting techniques to assess the investment decision. The Net Present Value (NPV) analysis showed a positive return, indicating profitability. The Internal Rate of Return (IRR) was 16%, exceeding the company's cost of capital of 11%. The Payback Period for the investment was estimated at four years, which aligned with the management's expectations. Given these favorable financial indicators, the management approved the expansion plan.

Questions:

- How did the financial statement analysis help ABC Enterprises in making an informed decision about expansion?
- What working capital management challenges did the company face, and what solutions were proposed?
- Why was capital budgeting important for evaluating the new product line?