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EXAMINATION: DECEMBER – 2025
SEMESTER - VI

Sub.: Financial Management (BBA22-615FM)

Date : 31/12/2025

Total Marks : 60

Time: 10.00 am To 12.30 pm

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

Q. 1. Choose the most appropriate option. (05)

1. The primary objective of wealth maximization is to _____
 a) Maximize short-term profit b) Increase market value of shares
 c) Reduce employee costs d) Expand business size
2. Which of the following ratios measures a firm's ability to meet short-term obligations?
 a) Debt-equity ratio b) Gross profit ratio
 c) Current ratio d) Return on capital employed
3. Which source of finance involves no fixed interest payment?
 a) Preference shares b) Equity shares
 c) Debentures d) Term loans
4. Investment decisions in financial management are mainly concerned with _____
 a) Distribution of profits b) Allocation of funds to assets
 c) Raising capital d) Payment of dividends
5. Which capital budgeting method considers the time value of money?
 a) Payback Period b) ARR
 c) NPV d) Average Cost Method

Q. 2. State True / False (05)

1. Liquidity ratios measure the long-term solvency of a company.
 a) True b) False
2. Retained earnings are an internal source of finance.
 a) True b) False
3. Operating leverage arises due to fixed operating costs.
 a) True b) False
4. A high debt-equity ratio always indicates financial strength.
 a) True b) False
5. IRR is the discount rate at which NPV becomes zero.
 a) True b) False

Q. 3. Write Short notes on (Any Three) (15)

1. Objectives of Financial Management
2. Types of Financial Decisions
3. Importance of Cash Flow Statement
4. Difference between Operating and Financial Leverage
5. Role of Working Capital in business

Q. 4. Answer in detail (Any Two) (20)

1. Explain the concept of Working Capital. Discuss the factors affecting working capital requirements of a manufacturing firm.
2. Describe capital structure. Explain the factors influencing capital structure decisions of a company.
3. What is financial planning? Discuss its importance in achieving organisational goals.
4. Discuss the advantages and limitations of Payback Period and ARR as investment appraisal techniques.

Q. 5. Nova Industries Ltd. operates in the renewable energy equipment sector. Due to growing demand for solar-powered systems, the company plans to expand its manufacturing capacity by introducing a new automated production line. Before finalising the project, management conducted a detailed financial evaluation. (15)

The company's financial analysis showed an average sales growth of 14% over the last three years. However, operating expenses increased due to rising raw material prices and maintenance costs. The current ratio stood at 1.5, indicating reasonable liquidity, while the debt-to-equity ratio was 1.4, suggesting moderate financial risk.

Nova Industries noticed that its cash conversion cycle had lengthened due to slower inventory movement and delayed payments from customers. The inventory turnover rate dropped from 7 times to 5 times, and the average collection period increased to 75 days. To improve efficiency, management proposed automated inventory control, stricter credit terms, and incentives for early customer payments.

To fund the expansion, the firm examined funding through bank loans, issue of preference shares, and internal reserves. After evaluating the cost of capital, Nova Industries decided on a funding mix of 45% debt, 30% equity, and 25% retained earnings.

Capital budgeting analysis showed the following results:

- a) Net Present Value (NPV): Positive
- b) Internal Rate of Return (IRR): 14%
- c) Cost of Capital: 11%
- d) Payback Period: 4 years

Questions

1. Identify the working capital issues faced by Nova Industries and the steps suggested to improve its cash conversion cycle.
2. Justify the selected financing mix of 45% debt, 30% equity, and 25% retained earnings.
3. Explain how the capital budgeting results supported the company's decision to expand its production facility.