

END SEMESTER EXAMINATION, MAY - 2026**M. B. A. Semester – II****Paper Code : 552110****Subject Name: Financial Management****Subject Code: MB204****Time allotted: 03 Hours****Max. Marks: 100****Note: Read all the instructions carefully.****Q.1 Attempt all questions (CO1,2)****(10x2=20Marks)**

- a. What is meant by financial leverage? State its meaning.
- b. Explain the concept of gross working capital.
- c. Describe the idea of combined leverage.
- d. Define financial management.
- e. What do you understand by net working capital?
- f. Explain the concept of operating leverage.
- g. State the meaning of capital structure.
- h. What is meant by current liabilities?
- i. Discuss the concept of wealth maximization.
- j. State the main objective of financial management.

Q.2 Attempt any five questions (CO3,4)**(5x4=20Marks)**

- a. Explain the concept of financial risk and support your answer with a suitable example.
- b. What is meant by capital gearing? Describe briefly.
- c. Differentiate between liquidity and profitability, giving appropriate illustrations.
- d. Discuss the key features and characteristics of equity and debt sources of finance.
- e. Describe the Net Operating Income (NOI) approach to capital structure planning.
- f. What do you understand by wealth maximization as a financial objective? Explain.
- g. Define personal leverage and illustrate the concept with an example.

Q.3 Attempt any three questions (CO 4,5)**(3x10=30Marks)**

- a. Analyze the concept of the operating cycle with the help of figures. Examine the reasons for an extended operating cycle and evaluate the measures that can be taken to reduce its length
- b. Analyze the primary objectives of financial management in an organization. Examine the key functions performed by the financial manager and evaluate their importance in achieving organizational goals.
- c. Analyze the importance of dividend policy for a company with suitable illustrations. Also examine and compare the Gordon Growth model with the Modigliani–Miller theory of dividends.
- d. Explain the “MM Theory” of capital structure with suitable illustrations in the light of following heads:
 - a) Arbitrage
 - Personal Leverage

Q.4 Attempt any two questions (CO5,6)**(2x15=30 Marks)**

- a. Two firms, **Alpha Ltd.** and **Beta Ltd.**, are identical in all respects except for their capital structure.

Particulars	Alpha Ltd.	Beta Ltd
Equity Share Capital	₹300,000	₹600,000
10% Debentures	₹200,000	—
Total Capital Employed	₹500,000	₹600,000
EBIT	20% of Total Capital Employed	
Cost of Equity (Ke) at initial level = Overall Cost of Capital (Ko)	16%	
Corporate Tax Rate	35%	

- i. Calculate the total value of **Alpha Ltd.** using the **Net Income (NI) Approach**
 - ii. Calculate the total value of **Alpha Ltd.** using the **Net Operating Income (NOI) Approach**
 - iii. Calculate the total value of **Beta Ltd.** using the **Net Income (NI) Approach**
 - iv. Calculate the total value of **Beta Ltd.** using the **Net Operating Income (NOI) Approach**
- b.** A manufacturing firm provides the following information relating to its cost structure and operating cycle. The raw material cost per unit is ₹100, direct labour cost per unit is ₹50, and manufacturing overheads per unit amount to ₹90, resulting in a total cost of ₹240 per unit. The company earns a profit of ₹80 per unit and therefore sells its product at ₹320 per unit.
- The firm maintains a raw material holding period of 5 weeks. The work-in-progress conversion period is 3 weeks, while finished goods are held in stock for 5 weeks before being sold. The average collection period from debtors is 6 weeks. The company enjoys a credit period of 5 weeks from its suppliers. Wages are paid with a time lag of 2 weeks, and overhead expenses are settled after 3 weeks.
- The company plans an annual production of 1,80,000 units, out of which 75% of the output is expected to be sold on credit. In addition, the firm desires to maintain a minimum cash balance of ₹75,000. A provision for contingencies is to be maintained at 10% of the total working capital requirement.
- You are required to prepare a Working Capital Budget for the firm. The required cash balance and provision for contingencies should also be incorporated to determine the total net working capital requirement of the company.
- c.** You are given the following financial data of a company:
- Sales Volume = 10,000 units
 - Selling Price per unit = ₹250
 - Variable Cost per unit = ₹150
 - Total Fixed Operating Cost = ₹80,000
 - Number of Equity Shares = 5,000
 - Interest on Debt = ₹90,000
 - Corporate Tax Rate = 40%

You are required to:

- i. Calculate the following:
Degree of Operating Leverage (DOL)
Degree of Financial Leverage (DFL)
Degree of Combined Leverage (DCL)
- ii. Prepare a detailed Income Statement showing:
- iii. Analyze the impact on the above leverages if:
Fixed Operating Cost increases by ₹20,000, and
Interest on Debt decreases by ₹15,000
