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Roll. No:

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. State the relationship between risk and return. (CO1, K2) 1

(a) Higher risk generally implies lower potential return.

(b) Risk and return are unrelated.

(c) Higher risk generally implies higher potential return.

(d) Higher return always guarantees lower risk.

1-b. State the goal of portfolio management. (CO2, K2) 1

(a) To maximize risk.

(b) To achieve a desired return while minimizing risk.

(c) To avoid investing in stocks.

(d) To predict market movements with certainty.

1-c. Interpret a DFL of 2. (CO3, K3) 1

(a) A 1% change in EBIT will result in a 0.5% change in EPS.

(b) A 1% change in EBIT will result in a 2% change in EPS.

(c) A 2% change in EBIT will result in a 1% change in EPS.

(d) The DFL has no impact on a company's profitability.

1-d. Define the NPV. (CO4, K2) 1

(a) The length of time it takes for an investment to generate enough cash flows to cover its initial cost.

(b) The rate of return that an investment is expected to generate.

(c) The present value of an investment's future cash flows.
(d) The accounting profit generated by an investment.

1-e.	State the benefits of effective cash management. (CO5, K2) (a) Increased risk of financial distress. (b) Reduced profitability. (c) Improved liquidity and ability to take advantage of opportunities. (d) Higher borrowing costs.	1

2. Attempt all parts:-

2.a.	Suppose you have $500 to invest. Is it better to receive a 5% return for one year or a 3% return for two years? Explain your reasoning using time value of money concepts. (CO1, K2)	2
2.b.	Illustrate the concept of risk aversion using an example. (CO2, K4)	2
2.c.	Discuss the importance of considering leverage when making investment decisions. (CO3, K2)	2
2.d.	Describe how risk is incorporated into the capital budgeting process. (CO4, K2)	2
2.e.	Discuss the benefits and risks of implementing a JIT inventory system. (CO5, K2)	2

SECTION-B 15

3. Answer any three of the following:-

3-a.	You want to have $1,000,000 in your retirement account in 30 years. If you can earn an average annual return of 8%, calculate the amount you need to invest today to reach your goal. (CO1, K4)	5
3-b.	A company has a capital structure consisting of 60% equity and 40% debt. The cost of equity is 15%, the before-tax cost of debt is 8%, and the tax rate is 30%. Calculate the company's weighted average cost of capital (WACC). (CO2, K4)	5
3.c.	A company is experiencing financial difficulties and is considering restructuring its operations to reduce its break-even point. Analyze the different strategies the company could employ to achieve this goal, such as reducing fixed costs, increasing selling prices, or changing its product mix. (CO3, K4)	5
3.d.	A company is evaluating a project with an initial investment of $80,000. The project is expected to generate annual cash flows of $30,000 for 5 years. Calculate the profitability index (PI) of the project if the company's discount rate is 10%. Interpret the meaning of the PI value. (CO4, K4)	5
3.e.	A company currently has an inventory turnover of 8 times per year. Its cost of goods sold is $1,200,000, and its carrying cost is 20% of inventory value. Calculate the company's current inventory level and its annual carrying costs. If the company can improve its inventory turnover to 10 times per year, how much will it save in carrying costs? (CO5, K4)	5

SECTION-C 20

4. Answer any one of the following:-

4-a.	Explain the concept of the time value of money and its implications for financial	4

decisions. Use examples to illustrate your points. (CO1, K2)

4-b. Discuss the importance of ethical considerations in financial management. Provide examples of ethical dilemmas that financial managers might encounter and discuss potential consequences of unethical actions. (CO1, K2) 4

5. Answer any <u>one</u> of the following:-

5-a. Discuss the challenges associated with estimating the cost of equity for a company. Explain different methods for calculating the cost of equity and their limitations. (CO2, K2) 4

5-b. Discuss the concept of market efficiency and its implications for investment decisions. Explain how market efficiency affects the ability of investors to earn abnormal returns. (CO2, K2) 4

6. Answer any <u>one</u> of the following:-

6-a. Illustrate the concept of financial leverage using a real-world example from a specific industry. Analyze how the use of debt financing affects the company's risk and return. (CO3, K4) 4

6-b. A company, XYZ Ltd., has the following financial details for the year 2023: (CO3, K4) 4

- Sales: $1,500,000
- Variable costs: 60% of sales
- Fixed costs: $300,000
- Interest expense: $100,000
- Number of shares outstanding: 200,000 shares
- Price per share: $10

You are required to:

1. Calculate the Degree of Operating Leverage (DOL)
2. Calculate the Degree of Financial Leverage (DFL)
3. Calculate the Degree of Combined Leverage (DCL)

7. Answer any <u>one</u> of the following:-

7-a. Discuss the impact of inflation on capital budgeting analysis. Explain how inflation can affect the value of future cash flows and the discount rate used to evaluate a project. (CO4, K2) 4

7-b. A company, ABC Ltd., is considering two investment projects, Project X and Project Y, and must decide which one to accept. The company uses a cost of capital of 10% to evaluate projects. The following details are available: 4

Project X:
Initial Investment: $500,000
Annual Cash Inflows: $150,000 for 5 years
Salvage Value at the end of Year 5: $50,000
Project Y:

Initial Investment: $700,000
Annual Cash Inflows: $180,000 for 5 years
Salvage Value at the end of Year 5: $60,000
You are required to:
Calculate the Net Present Value (NPV) of each project.
Calculate the Payback Period for each project.

8. Answer any one of the following:-

8-a.	Explain the importance of establishing a sound credit policy for managing accounts receivable. Discuss the factors that companies should consider when developing their credit policies, such as credit standards, credit terms, and collection procedures. (CO5, K2)	4
8-b.	Describe the various methods used to assess the creditworthiness of customers, including credit scoring, credit reports, and financial statement analysis. Explain the importance of each method in making informed credit decisions.(CO5, K2)	4

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