



**Avinashilingam Institute for Home Science and Higher Education for Women**  
**Deemed to be University Estd.u/s 3 of UGC Act 1956, Category A by MHRD [now MoE]**  
**Re-accredited with an 'A++' Grade by NAAC. CGPA 3.65/4, Category I by UGC**  
**Coimbatore - 641 043, Tamil Nadu, India**  
**Continuous Internal Assessment II - April 2025**  
**II Semester**

**Class: I MBA/I MBA (SF)/I MBA (IT&SM)**

**Time: 2 hours**

**Major: Business Administration**

**Max.marks:60**

**23MBAC11/MBMC 11 Financial Management**

**Course Outcomes:**

At the end of the course, students will:

1. Understand both the theoretical and practical role of financial management in business corporations.
2. Analyze capital structure and cost of capital of any firm.
3. Apply the concepts of financial management to present-day financial events.
4. Evaluate capital investment decisions and financial policies of business valuations.
5. Develop analytical skills that would facilitate the decision making in business situations.

**Part A**

**6 x1=6**

**Choose the correct answer**

1. MM Hypothesis (without taxes) states that capital structure: **CO3K1**
  - a. Affects firm value
  - b. Is irrelevant to firm value
  - c. Depends on dividend policy
  - d. Is determined by EBIT
2. EBIT-EPS analysis is used to: **CO3K2**
  - a. Determine dividend payout
  - b. Evaluate financing alternatives
  - c. Calculate NPV
  - d. Assess working capital
3. Dividend irrelevance theory is associated with: **CO4K1**
  - a. Walter
  - b. Gordon
  - c. Modigliani-Miller
  - d. Markowitz
4. Stock dividends result in: **CO4K2**
  - a. Cash outflow
  - b. Increased share price
  - c. Dilution of ownership
  - d. Higher EPS
5. The primary goal of cash management is: **CO5K2**
  - a. Maximize liquidity
  - b. Minimize liquidity
  - c. Balance liquidity and profitability
  - d. Avoid investments
6. MS Excel is used in financial management for: **CO5K2**
  - a. Payroll processing
  - b. Data analysis and modelling
  - c. Customer service
  - d. Product design

**Part B**

**3x6=18**

**Answer ALL Questions**

**Answer should not exceed 400 words or two pages**

- 7 a. Discuss the pecking order theory with an example. **CO3K3**

(or)
- 7 b. What is financial distress? How does it affect capital structure decisions? **CO3K4**
- 8 a. Analyze the factors influencing dividend policy **CO4K3**

(or)
- 8 b. Using Walter's model, calculate the price of a share if EPS = ₹10, retention ratio = 60%,  $r = 15%$ ,  $k_e = 12%$  **CO4K3**
- 9 a. Calculate EOQ for a firm with annual demand = 10,000 units, ordering cost = ₹200/order, carrying cost = ₹10/unit. **CO5K4**

(or)
- 9 b. A company has an operating cycle of 90 days and a payable period of 30 days. Calculate the cash cycle **CO5K3**

**Part C**

**3 x12=36**

**Answer ALL Questions.**

**Answer should not exceed 800 words or four pages**

- 10 a. Explain EBIT-EPS analysis with a scenario. A firm is considering two financing options for a ₹10 crore project: **CO3K3**  
(or)
- 10 b. Explain the Baumol and Miller-Orr cash management models. A firm has an annual cash requirement of ₹1 crore, transaction cost = ₹200, interest rate = 8%. Calculate optimal cash balance under Baumol **CO5K3**
- 11 a. Explain Gordon's model with an example. A firm has EPS = ₹10, retention ratio = 60%, growth rate = 9%,  $k_e = 15\%$ . Calculate the share price. **CO4K5**  
(or)
- 11b. Explain the MM Hypothesis on dividend irrelevance. A firm with ₹100 lakh earnings declares a ₹40 lakh dividend. Show how shareholders are unaffected in a perfect market **CO4K4**
12. **Case Study: Working Capital Calculation for XYZ Electronics Ltd.** **CO5K6**  
Background:

XYZ Electronics Ltd. is a mid-sized consumer electronics company that manufactures and sells home appliances. The company has faced cash flow challenges in recent months and wants to assess its working capital position to improve financial stability. The following financial data is available from their most recent financial statements:

Item	Amount (Rs.)
Cash and Cash Equivalents	50,000
Accounts Receivable	2,00,000
Inventory	1,50,000
Prepaid Expenses	25,000
Accounts Payable	1,20,000
Short-Term Debt	80,000
Accrued Expenses	30,000

**Required Questions:**

1. Calculate XYZ Electronics Ltd.'s total current assets.
2. Calculate the total current liabilities of XYZ Electronics Ltd.,
3. Compute the working capital for XYZ Electronics Ltd.
4. Interpret the calculated working capital. What does this figure indicate about the company's liquidity?
5. If the company wants to improve its working capital position, what strategies could they adopt?

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