


VIT

Vellore Institute of Technology
(Approved by the All India Council of Technical Education)

Reg. No:

Final Assessment Test – April 2026
Course: **MGT2003** - Financial Management
Class NBR(s): **6186 / 6187**
Time: **Three Hours**

Slot: **F2+TF2**

Max. Marks: **100**
EXAM MALPRACTICE

- **KEEPING MOBILE PHONE/ANY ELECTRONIC GADGETS, EVEN IN 'OFF' POSITION IS TREATED AS EXAM MALPRACTICE**
- **DON'T WRITE ANYTHING ON THE QUESTION PAPER**

Cos	CO Statements
CO1	To enable the budding Technocrat Managers to understand the Financial Management concepts and to appreciate the concepts of "time value of money" in the decision-making process.
CO2	To value the Securities and know the concept of Risk and return.
CO3	To evaluate the "Leverage", "cost of capital" and the projects using the Capital budgeting concepts.
CO4	To understand the Capital components, their implications and Working Capital requirements.
CO5	To analytically view the Components of Working Capital.

BL – Blooms Taxonomy Level (1 – Remember, 2 – Understand, 3 – Apply, 4 – Analyse, 5 – Evaluate, 6 – Create)

Answer ALL Questions
(10 X 10 = 100 Marks)

- Describe the role of a financial manager in a challenging business environment. CO1 BL2
Illustrate with suitable examples from modern industries.
- A sum of ₹25,000 is invested at 12% p.a. compounded annually for 3 years. Calculate: (i) Future Value (ii) Compound Interest earned. [4] CO2 BL3
 - Determine the present value of a bond (FV ₹1,000, coupon 10%, maturity 3 years, market rate 12%). State whether it is at premium/discount. [4]
 - Using the CAPM model, calculate the expected return of a security given: Risk-free rate = 6%, Market return = 14%, Beta = 1.25. Explain what the result implies about the risk of the security. [2]
- A company has just paid a dividend of ₹4 per share (D_0). The dividends are expected to grow at 10% per annum for the next 3 years, and thereafter grow at a constant rate of 6% per annum indefinitely. The required rate of return is 12%. CO2 BL4
Calculate the present value of the equity share using the Discounted Cash Flow (DCF) model.

- 4.a) Adani Ports and Special Economic Zone Limited is planning to expand its port capacity and has the following capital structure:

CO3 BL4

Equity	150 crore (Rs.) at a face value of Rs. 10 per share
Market price	Rs. 800
Dividend (Do)	Rs. 20 (Do)
Growth Rate	6%
Preference Shares	Rs. 3,000 crore, 10% Preference dividend trading at Rs. 96
Debt.	Rs. 20,000 crore, 11% Interest trading at Rs. 90
Corporate tax rate	30%

Required:

- a) Compute K_e , K_p , K_d (after tax) [4]
b) Calculate WACC [4]
c) Evaluate a project yielding 10% return [2]

OR

- 4.b) A company has the following data:

CO3 BL4

- Sales = ₹10,00,000
- Variable Cost = ₹6,00,000
- Fixed Operating Cost = ₹2,00,000
- Interest = ₹50,000
- Tax rate = 30%

Required:

- (i) Prepare the income statement up to EPS assuming 1,00,000 equity shares. [4]
(ii) Calculate: [3]
Degree of Operating Leverage (DOL)
Degree of Financial Leverage (DFL)
Degree of Total Leverage (DTL)
(iii) If sales increase by 10%, estimate the percentage change in EPS. [3]
5. Indian Oil Corporation Limited is planning to expand its refining capacity to meet growing energy demand. However, the company is facing challenges such as volatile crude oil prices, rising interest rates, and increasing competition from renewable energy sources. CO3 BL4
- To finance the expansion, the management is considering increasing its reliance on debt financing instead of issuing new equity shares. The finance team is evaluating how this decision will affect the company's risk, return, and overall cost of capital.
- Based on the above case, answer the following:
- (i) Evaluate how increasing financial leverage (debt) will affect the risk and return of the company. [5]
(ii) Justify how increasing debt will influence the cost of capital (WACC). Does increasing debt always reduce WACC? Justify your answer. [5]

6. A project requires an initial investment of ₹1,50,000. The expected cash inflows are as follows: CO4 BL4

Year Cash Inflow (₹)

1	40,000
2	50,000
3	60,000
4	50,000

The project has a salvage value of ₹20,000 at the end of year 4.

The required rate of return is 10%.

Required:

- a) Calculate the Discounted Payback Period [2]
- b) Calculate the Net Present Value (NPV) [2]
- c) Calculate the Profitability Index (PI) [2]
- d) Estimate the Internal Rate of Return (IRR) [2]
- e) Comment on the acceptability of the project [2]

7. A manufacturing company has provided the following data: CO4 BL3

Annual Sales: ₹72,00,000

Cost structure:

- Raw material = 50% of sales
- Labour = 20% of sales
- Overheads = 20% of sales
- Profit = 10% of sales

Inventory holding period:

- Raw materials = 2 months
- Work-in-progress = 1 month (assume 100% material, 50% labour & overhead)
- Finished goods = 1 month
- Credit period allowed to debtors: 2 months
- Credit period received from suppliers: 1 month
- Time lag in wage payment: 0.5 month
- Time lag in overhead payment: 1 month

Required:

- (i) Estimate the working capital requirement. [8]
- (ii) Suggest two measures to reduce working capital requirement. [2]

- 8.a) (i) A manufacturing firm is experiencing a long cash cycle (cash conversion cycle) due to high inventory levels, delayed collection from customers, and early payments to suppliers. [5] CO4 BL4

Suggest any five practical measures the firm can adopt to optimize (reduce) its cash cycle.

- (ii) Explain how working capital is affected by: [5]
 - sales,
 - technology and production policy,
 - inflation

OR

8.b) A firm is planning to finance its current assets and is considering three approaches: Matching, Conservative, and Aggressive. CO4 BL4

(i) Explain each approach with suitable examples. [4]

(ii) Compare the approaches in terms of risk, cost, and profitability. [3]

(iii) Which approach would you recommend for: [3]

- A stable manufacturing firm
- A fast-growing startup

Justify your answer.

9. (i) A firm has set a lower limit (L) = ₹20,000 for its cash balance. The variance of daily cash flows is ₹4,00,000, the transaction cost is ₹200, and the daily interest rate is 0.02%. [5] CO5 BL2

Required:

- a) Calculate the spread (Z)
- b) Determine the upper limit (H)
- c) Calculate the return point (R)

(ii) A firm requires ₹6,00,000 cash annually. The cost of converting securities into cash is ₹500 per transaction, and the opportunity cost of holding cash is 10% per annum. [5]

Required:

- a) Calculate the optimal cash balance
- b) Find the number of transactions per year

10. Define the following terms:

(i) Factoring CO5 BL1

(ii) Outsourcing [2]

(iii) Speculative motive [2]

(iv) Credit Policy [2]

(v) Credit Reference [2]

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