



**SREENIVASA INSTITUTE OF TECHNOLOGY AND MANAGEMENT STUDIES**  
(Autonomous)

*Department of Management Studies*

QUESTION BANK

Financial Management : 22MBA121

**SREENIVASA INSTITUTE of TECHNOLOGY and MANAGEMENT STUDIES**  
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## FINANCIAL MANAGEMENT

### QUESTION BANK

I MBA / II - SEMESTER

REGULATION: R22



BY

FACULTY INCHARGE : DR.K.SUDARSAN , PROFESSOR

DEPARTMENT : MASTER OF BUSINESS ADMINISTRATION



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I MBA – Semester - II					
Course Code	FINANCIAL MANAGEMENT	L	T	P	C
22MBA121		3	1	0	4
<b>Course Educational Objectives (CEO):</b>					
<p><b>CEO1:</b> To provide basic knowledge on importance and applications of financial management in business, the role and functions of chief financial officer.</p> <p><b>CEO2:</b> To give an elaborate view about EBIT-EPS Analysis, Leverage Analysis and cost of capital - its calculation and how it is useful in decision making.</p> <p><b>CEO3:</b> To provide knowledge about various capital budgeting techniques.</p> <p><b>CEO4:</b> To make comprehend of dividend decisions and dividend theories (Walter’s model, Gordon’s model and M-M’s Approach).</p> <p><b>CEO5:</b> To elucidate working capital management.</p>					
<b>UNIT - I</b>	<b>The Finance Functions</b>	Lecture Hrs: 8			
Nature and Scope of Finance - Goals of Finance Function - Profit Maximization Vs Wealth Maximization - Risk-Return Trade off.					
<b>UNIT - II</b>	<b>The Capital Structure Decision and Cost of Capital</b>	Lecture Hrs: 12			
<p><b>Capital structure decision:</b> Meaning- Factors influencing capital structure - Capital Structure Decision in Practice: EBIT-EPS Analysis – Leverage Analysis.</p> <p><b>Cost of Capital:</b> Concept, Components, Determinants and Measurement of Cost of Capital -Cost of Equity, Preference Shares, Retained Earnings and Debt - Weighted Average Cost of Capital (WACC).</p>					
<b>UNIT - III</b>	<b>The Investment Decision</b>	Lecture Hrs:12			
Investment Decision Process - Evaluation Techniques: Traditional and Discounted Cash Flow Methods: Pay-back Period (PBP), Discounted Payback Period, Average Rate of Return (ARR), Net Present Value (NPV), Profitability Index (PI) and Internal Rate of Return (IRR) Methods.					
<b>UNIT - IV</b>	<b>The Dividend Decision</b>	Lecture Hrs:12			
Meaning and determinants of dividend decision - Forms of Dividend – Theories of dividend policy: Walter’s model, Gordon’s model and M-M’s Approach.					
<b>UNIT - V</b>	<b>Working Capital Management</b>	Lecture Hrs:12			
Concept, Components and Determinants of Working Capital - Operating Cycle Approach - Estimation of Working Capital. <b>Management of Cash:</b> Introduction, Basic Strategies for Cash Management - Cash Budget.					
<b>Course Outcomes:</b>					
<b>On successful completion of the course the student will be able to,</b>					<b>POs related to COs</b>
CO1	Understand the importance, role and functions of financial management.				PO1,PO8



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CO2	<b>Understand</b> the importance of cost of capital in decision making and its calculation.	PO1, PO2, PO8
CO3	<b>Evaluate</b> investment decisions using capital budgeting techniques.	PO1, PO2, PO8
CO4	<b>Demonstrate</b> the knowledge on factors influencing capital structure and dividend decisions and Theories of dividend policy.	PO1, PO2, PO8
CO5	<b>Understand</b> the importance of working capital and its management.	PO1, PO2, PO8

**Text Books:**

1. Financial Management, I.M. Pandey, Vikas Publishers, 2015.
2. Financial Management, P.V.Kulakarni and B.G.Satya Prasad, Himalaya Publishing House Pvt. Ltd. India, 2011.

**Reference Books:**

1. Financial Management, Tulsian P. C. & Tulsian Bharat, S Chand and Company Limited, New Delhi, 2016.
2. Financial Management-Management and Polic R.M.Srivastava, Himalaya Publishing House Pvt. Ltd., India, 2010.
3. Financial Management-Text and Problems, MY Khan and PK Jain, Tata McGraw-Hill, New Delhi, 2007.
4. Fundamentals of Financial Management, Chandra Bose D, PHI, 2006.
5. Corporate Finance: Theory and Practice, 2/e, Vishwanath.S.R., Sage Publications, 2007.
6. Case Studies in Finance, 5/e, Bruner.R.F. Tata McGraw Hill, New Delhi, 2007.
7. Financial Management, Prasanna Chandra, Tata McGraw Hill, New Delhi, 2009.

**Online Learning Resources:**

- <https://nptel.ac.in/courses/110107144>  
[https://onlinecourses.nptel.ac.in/noc20\\_mg31/preview](https://onlinecourses.nptel.ac.in/noc20_mg31/preview)



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**QUESTION BANK**

Question No.	Questions	PO Attainment
<b>UNIT - 1: THE FINANCE FUNCTIONS:</b>		
<b>PART-A (Two Marks Questions)</b>		
1	Write a note on evolution of finance function.	PO1,PO8
2	Contrast the salient features of modern approach to financial management.	PO1,PO8
3	Define financial management.	PO1,PO8
4	Write note on traditional approach of finance.	PO1,PO8
5	Write a note on profit maximization approach.	PO1,PO8
6	What do you understand by shareholders wealth?	PO1,PO8
7	What is finance function?	PO1,PO8
8	List out the three limitations of profit maximization.	PO1,PO8
9	What is meant time value of money?	PO1,PO8
10	What is financing decision?	PO1,PO8
11	What do you mean by dividend decision?	PO1,PO8
12	Explain the concept of profit maximization.	PO1,PO8
13	Explain the nature of financial management.	PO1,PO8
14	Discuss in detail the scope of financial management.	PO1,PO8
15	Discuss the risk return trade – off in financial decisions.	PO1,PO8
16	Write a note on organization of finance function.	PO1,PO8
17	What is the difference between finance and accounting?	PO1,PO8
18	Write a note on investment decision.	PO1,PO8
19	What is the main goal of financial manager?	PO1,PO8
20	What is the meaning of risk return trade off?	PO1,PO8
<b>PART-B (Ten Marks Questions)</b>		
1	In what respect is the objective of wealth maximization superior to the profit maximization?	PO1,PO8
2	What do you mean by financial management? Discuss the approaches to finance function.	PO1,PO8
3	What do you mean by business finance? Should the goal of financial decision making be profit maximization or wealth maximization? Discuss.	PO1,PO8
4	“The profit maximisation is not an operationally feasible criterion.” Do you agree? Illustrate your views.	PO1,PO8



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5	What are the basic financial functions? How did they involve risk – return trade off.	PO1,PO8
6	What are the main functions of the modern finance manager? How do they differ from those of the traditional financial manager?	PO1,PO8
7	“Finance functions of a business is closely related to its other functions” Discuss.	PO1,PO8
8	What is the nature of financial management? Explain.	PO1,PO8
9	Explain the evolution of financial management.	PO1,PO8
10	Explain the relationship between financial decisions and risk- return trade off.	PO1,PO8

**UNIT - 2: THE FINANCING DECISION AND COST OF CAPITAL:**

**PART-A (Two Marks Questions)**

1	What is cost of capital?	PO1, PO2, PO8
2	Explain the significance of cost of capital in financial management.	PO1, PO2, PO8
3	How do you compute growth rate?	PO1, PO2, PO8
4	What do you mean by CAPM approach?	PO1, PO2, PO8
5	How is cost of retained earnings computed?	PO1, PO2, PO8
6	How is cost of perpetual debt computed?	PO1, PO2, PO8
7	List out any two approaches to calculate cost of equity.	PO1, PO2, PO8
8	What is EBIT- EPS analysis?	PO1, PO2, PO8
9	Write a note on leverage analysis.	PO1, PO2, PO8
10	What is the meaning of weighted average cost of capital?	PO1, PO2, PO8
11	How is cost of redeemable preference shares computed?	PO1, PO2, PO8
12	List out the sources of long-term finance.	PO1, PO2, PO8
13	Define capital structure.	PO1, PO2, PO8
14	Define optimum capital structure.	PO1, PO2, PO8
15	What is financial structure?	PO1, PO2, PO8
16	List the approaches available to determine appropriate capital structure.	PO1, PO2, PO8
17	How do you compute EBIT?	PO1, PO2, PO8
18	Define operating leverage.	PO1, PO2, PO8
19	Define financial leverage.	PO1, PO2, PO8
20	What is combined leverage?	PO1, PO2, PO8

**PART-B (Ten Marks Questions)**

1	What is cost of equity? Write a detailed note on the approaches available for computation of cost of equity.	PO1, PO2, PO8
2	Define cost of capital. Discuss in detail the steps involved in computation of WACC.	PO1, PO2, PO8



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**QUESTION BANK**

**Financial Management : 22MBA121**

3	“Evaluating capital budgeting proposals without cost of capital is not possible”. Discuss.	PO1, PO2, PO8
4	What are the components of capital? Discuss in detail the individual components of capital.	PO1, PO2, PO8
5	Define capital structure? Discuss the important factors that should be considered while determining capital structure.	PO1, PO2, PO8
6	What is leverage? Discuss the types of leverage.	PO1, PO2, PO8
7	Distinguish between operating leverage and financial leverage.	PO1, PO2, PO8
8	Define capital structure. Discuss the important factors that should be considered while determining capital structure.	PO1, PO2, PO8
9	Discuss the relationship between EPS and EBIT.	PO1, PO2, PO8
10	Write a note on EBIT analysis.	PO1, PO2, PO8

**UNIT - 3: THE INVESTMENT DECISION:**

**PART-A (Two Marks Questions)**

1	Define capital budgeting.	PO1, PO2, PO8
2	List the stages of capital budgeting process.	PO1, PO2, PO8
3	What do you understand by capital budgeting.	PO1, PO2, PO8
4	What do you mean by discounting of cash flows?	PO1, PO2, PO8
5	What do you mean by mutually exclusive project?	PO1, PO2, PO8
6	State the techniques of capital budgeting?	PO1, PO2, PO8
7	What do you mean by pay back period?	PO1, PO2, PO8
8	What is the accept and reject criterion under NPV technique?	PO1, PO2, PO8
9	What are the limitations of capital budgeting?	PO1, PO2, PO8
10	Explain the pay back period.	PO1, PO2, PO8
11	What is the accept and reject criterion under PBP technique?	PO1, PO2, PO8
12	List three limitations of pay back period.	PO1, PO2, PO8
13	Name discounting cash flow methods.	PO1, PO2, PO8
14	What is NPV?	PO1, PO2, PO8
15	What is Profitability Index?	PO1, PO2, PO8
16	What is IRR?	PO1, PO2, PO8
17	What is the accept and reject criterion under IRR technique?	PO1, PO2, PO8
18	How do you calculate cash flows after tax?	PO1, PO2, PO8
19	What is Average rate of return?	PO1, PO2, PO8
20	What is the accept and reject criterion under Profitability Index technique?	PO1, PO2, PO8

**PART-B (Ten Marks Questions)**

1	What is capital budgeting? Explain the process of capital budgeting.	PO1, PO2, PO8
2	Briefly discuss the techniques of capital budgeting with their merits and limitations.	PO1, PO2, PO8
3	Explain the nature and concept of capital budgeting.	PO1, PO2, PO8



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4	Discuss the significance of capital budgeting.	PO1, PO2, PO8
5	How do you calculate average rate of return? What are its limitations?	PO1, PO2, PO8
6	Compare and contrast NPV with IRR.	PO1, PO2, PO8
7	Discuss the traditional techniques of capital budgeting evaluation.	PO1, PO2, PO8
8	What is NPV? Discuss the steps involved in computation of NPV.	PO1, PO2, PO8
9	What is capital budgeting? Discuss its nature, importance and deficiencies of capital budgeting.	PO1, PO2, PO8
10	Discuss the modern techniques of capital budgeting evaluation.	PO1, PO2, PO8

**UNIT - 4: THE DIVIDEND DECISION:**

**PART-A (Two Marks Questions)**

1	Give the meaning of dividends.	PO1, PO2, PO8
2	Name the two relevance theories of dividend.	PO1, PO2, PO8
3	According to the Walter's theory give the meaning of dividend.	PO1, PO2, PO8
4	List out the assumptions of Walter's model.	PO1, PO2, PO8
5	How do you compute share price under Walter theory of dividend?	PO1, PO2, PO8
6	How do you compute share price under Gordon's model?	PO1, PO2, PO8
7	What do you mean by irrelevance theory of dividends?	PO1, PO2, PO8
8	What is MM hypothesis?	PO1, PO2, PO8
9	Explain the share price valuation formula given by Gordon.	PO1, PO2, PO8
10	Explain the relevance theory of dividend?	PO1, PO2, PO8
11	Name the theories of capital structure.	PO1, PO2, PO8
12	Explain the limitations of MM hypothesis.	PO1, PO2, PO8
13	List out the forms of dividend.	PO1, PO2, PO8
14	What is meant by stock dividend?	PO1, PO2, PO8
15	What is meant by bonus shares?	PO1, PO2, PO8
16	What is meant by dividend policy?	PO1, PO2, PO8
17	List out the assumptions under MM hypothesis.	PO1, PO2, PO8
18	What is meant by cash dividend?	PO1, PO2, PO8
19	What is meant by scrip dividend?	PO1, PO2, PO8
20	What is Gordon's model?	PO1, PO2, PO8

**PART-B (Ten Marks Questions)**

1	Discuss in detail the Gordon' dividend theory.	PO1, PO2, PO8
2	Critically explain Walter's relevance theory of dividends.	PO1, PO2, PO8
3	Critically examine the assumptions underlying the irrelevance hypothesis of MM regarding dividend distribution.	PO1, PO2, PO8
4	Explain Walter's dividend Relevance theory?	PO1, PO2, PO8
5	Explain the implications of Walter's model.	PO1, PO2, PO8
6	Gordon's dividend theory based on some assumptions. List out the assumptions.	PO1, PO2, PO8



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7	How do you compute value of the firm under MM hypothesis?	PO1, PO2, PO8
8	How do you compute value of the firm under Walter's model?	PO1, PO2, PO8
9	How do you compute value of the firm under Gordon's model?	PO1, PO2, PO8
10	What are the theories of dividend policy? Explain.	PO1, PO2, PO8

**UNIT - 5: WORKING CAPITAL MANAGEMENT:**

**PART-A (Two Marks Questions)**

1	What is operating cycle?	PO1, PO2, PO8
2	Write a note on gross working capital and net working capital.	PO1, PO2, PO8
3	What is cash management?	PO1, PO2, PO8
4	List out the objectives of preparing cash budget.	PO1, PO2, PO8
5	Note the objectives of cash management.	PO1, PO2, PO8
6	List out the aspects of cash management.	PO1, PO2, PO8
7	What is cash budget?	PO1, PO2, PO8
8	What is working capital?	PO1, PO2, PO8
9	What is working capital management?	PO1, PO2, PO8
10	Distinguish between permanent working capital and variable working capital.	PO1, PO2, PO8
11	What is negative working capital?	PO1, PO2, PO8
12	List out the components of current assets.	PO1, PO2, PO8
13	List out the components of current liabilities.	PO1, PO2, PO8
14	List out the components of working capital.	PO1, PO2, PO8
15	State the various stages of operating cycle.	PO1, PO2, PO8
16	What is cash cycle?	PO1, PO2, PO8
17	Mention the sources of short-term working capital.	PO1, PO2, PO8
18	What is meant by adequate working capital?	PO1, PO2, PO8
19	Explain the concept of working capital.	PO1, PO2, PO8
20	Give the formula for operating cycle.	PO1, PO2, PO8

**PART-B (Ten Marks Questions)**

1	What is working capital? Is there any significance in the concept of gross working capital and net working capital? Discuss in detail.	PO1, PO2, PO8
2	What is working capital management? Discuss the factors that can be considered while estimating working capital requirements of a business firm.	PO1, PO2, PO8
3	Explain various motives for holding cash.	PO1, PO2, PO8
4	What is cash management? Discuss the objectives.	PO1, PO2, PO8
5	Briefly discuss the aspects of cash management.	PO1, PO2, PO8
6	Cash budgeting is the principal tool of cash management. Discuss.	PO1, PO2, PO8





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7	Discuss in detail the factors that determine the cash needs of a firm. Give examples to necessary factors.	PO1, PO2, PO8
8	Discuss the steps involved in estimation of working capital needed by a firm.	PO1, PO2, PO8
9	“Working capital deals with the decisions regarding the appropriate mix and level of current assets and current liabilities”. Elucidate that statement.	PO1, PO2, PO8
10	What is the need to maintain optimum working capital? Discuss the consequences of inadequate and excess working capital.	PO1, PO2, PO8



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