TUTOR MARKED ASSIGNMENT

COURSE CODE	**:**	**BCOE – 143**
COURSE TITLE	**:**	**FUNDAMENTALS OF FINANCIAL MANAGEMENT**
ASSIGNMENT CODE	**:**	**BCOE – 143/TMA/2026-27**
COVERAGE	**:**	**ALL BLOCKS**

Maximum Marks: 100

Note: Attempt all the questions.

Section – A
(Attempt all the questions. Each question carries 10 marks.)

1. Explain the objectives of financial management. How does the goal of wealth maximisation differ from profit maximisation as a financial objective? **(10)**

2. Discuss the Net Present Value (NPV) method for evaluating capital budgeting decisions. How does NPV differ from the Internal Rate of Return (IRR)? Explain with suitable examples. **(10)**

3. What is the Capital Asset Pricing Model (CAPM)? Explain the concept of Arbitrage Pricing Theory (APT) and differentiate it from CAPM. **(10)**

4. Explain the Modigliani-Miller (MM) hypothesis on dividend policy. Under what assumptions does dividend policy become irrelevant to the value of a firm? **(10)**

5. Explain the different stages involved in the operating cycle. Distinguish between gross working capital and net working capital. **(10)**

Section – B
(Attempt all the questions. Each question carries 6 marks.)

6. Explain the concept of time value of money. Why is it important in financial decision making? **(6)**

7. What is the Payback Period method? Explain its acceptance criteria and discuss its limitations as a capital budgeting technique. **(6)**

8. Explain the various methods used for valuation of equity shares. How is the intrinsic value of a share determined? **(6)**

9. Explain the concept of financial leverage and its impact on the earnings per share (EPS) of a firm. **(6)**

10. Discuss the conditions under which a company cannot declare dividends. What legal and financial constraints govern dividend declaration? **(6)**

Section – C
(Attempt all the questions. Each question carries 10 marks.)

11. **Write short notes on:** **(5x2)**

a) Profitability Index as a capital budgeting method

b) Factoring and Forfaiting as sources of working capital finance

12. **Distinguish between:** **(5x2)**

a) Net Income Approach and Net Operating Income Approach to capital structure

b) Walter's Model and Gordon's Model of dividend policy

1. Explain the objectives of financial management. How does the goal of wealth maximisation differ from profit maximisation as a financial objective? (10)

Answer

Financial management is concerned with planning, obtaining and using funds in a way that helps a business achieve its overall goals. It covers major decisions such as investment in assets, choice of sources of finance, dividend policy and management of working capital. The finance manager therefore has to balance profitability, liquidity, risk and the interests of owners while making financial decisions.

Objectives of financial management

1. Ensuring adequate availability of funds: A business needs money for fixed assets, inventory, wages, expansion and day-to-day operations. Financial management estimates these needs and arranges funds at the right time so that productive activities are not interrupted.

2. Efficient use of funds: Merely raising finance is not enough. Funds should be invested in projects and assets that are expected to generate satisfactory returns. Idle cash, excessive inventory or unproductive assets reduce the efficiency of the business.

3. Maintaining a proper balance between risk and return: Generally, a higher expected return is associated with higher risk. Financial decisions should not seek return without considering the possibility of loss. The firm should select investments and financing arrangements that give an acceptable risk-return combination.

4. Maintaining liquidity and solvency: The firm must have enough liquid resources to meet short-term commitments, while its long-term debt should remain within a manageable level. Too little liquidity may lead to payment difficulties, whereas too much liquidity may lower profitability.

5. Choosing an appropriate capital structure: The finance manager has to decide the suitable mix of equity and debt. Debt may provide a tax advantage and increase the return to shareholders in favourable conditions, but excessive borrowing raises financial risk and fixed interest obligations.