



BRAINWARE UNIVERSITY

Course –MBA

Financial Management and Management Accounting (MBA 207)

(Semester – 2)

Time allotted: 3 Hours

Full Marks: 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

10 x 1 = 10

1. Choose the correct answer from the given alternatives: (Any Ten)

- a. Which one of the following is a drawback of NPV
 - i. Does not consider time value of money.
 - ii. Salvage value is not qualified
 - iii. Does not consider time horizon of the projects
 - iv. None of the above.
- b. The return from security A and B are 20% and 25% respectively. The risks (Standard deviation) are 4% and 5% respectively. Which security is optimal
 - i. Security A
 - ii. Security B
 - iii. Both Security A & Security B
 - iv. None
- c. The relation between PVIFA and Capital recovery factor is
 - i. Inverse
 - ii. Proportionate
 - iii. No relation
 - iv. Direct
- d. The DOL and DFL at operating and financial breakeven point is
 - i. Zero and infinite
 - ii. Infinite and zero
 - iii. Zero and zero
 - iv. Infinite and infinite

- e. Fixed cost is Rs. 500000 and Profit –Volume ratio is 25%. The Break-even sale is
- Rs. 2000000
 - Rs. 2500000
 - Rs. 3000000
 - Rs. 3500000
- f. The gross profit ratios of a company in the last 5 years are same but the net profit ratios are increasing. This indicates
- Companies performance is increasing
 - Cost cutting
 - Efficiency is increasing
 - Cost of production is declining.
- g. In the conflict situation between NPV and IRR, which method should be given priority and why
- NPV, because value addition motive is more appropriate than risk minimization.
 - NPV, because risk minimization motive is more appropriate than value addition.
 - IRR, because IRR identifies increased value of company
 - None
- h. Contribution earned from margin of safety is equal to
- Profit
 - Fixed cost
 - EBIT
 - None of the above
- i. Which of the following is not a drawback of NPV
- Does not consider time factor
 - Does not consider initial investment
 - Does not consider time value of money
 - All of the above
- j. Which drawback of NPV can be recovered by Benefit Cost Ratio
- Does not consider time factor
 - Does not consider initial investment
 - Does not consider time value of money
 - Does not consider risk factor
- k. The objective of measuring the Cash EPS is to overcome the impact of different method of calculating
- Depreciation & Amortization
 - Stock valuation
 - Overhead
 - None of the above

- I. Which of the following method is a non-discounting method
- i. ROI
 - ii. NPV
 - iii. IRR
 - iv. None

Group – B

(Short Answer Type Question)

(Answer any three)

3 x 5 = 15

2. How much should Vijay save each year, if he wishes to purchase a flat expected to cost Rs.80 lacKs after 8 years, if the investment option available to him offers a rate of interest at 9 percent? Assume that the investment is to be made in equal amounts at the end of each year.
3. The following information is given for Alpha Corporation
- | | |
|------------------------|------|
| Sales (total revenues) | 3500 |
| Current ratio | 1.5 |
| Acid test ratio | 1.2 |
| Current liabilities | 1000 |
- What is the inventory turnover ratio?
4. The risk-free return is 7 percent and the return on market portfolio is 13 percent. Stock P's beta is 0.8; its dividends and earnings are expected to grow at the constant rate of 5 percent. If the previous dividend per share of stock P was Rs.1.00, what should be the intrinsic value per share of stock P?
5. A Rs.100 par value bond, bearing a coupon rate of 9 percent will mature after 4 years. What is the value of the bond, if the discount rate is 13 percent? Should an investor invest in this share if the present market value of share is Rs. 70.
6. What is beta value? State the significance of beta value.

Group – C

(Long Answer Type Question)

(Answer any three)

3 x 15 = 45

7. ABC Chemicals is evaluating two alternative systems for waste disposal, System A and System B, which have lives of 6 years and 4 years respectively. The initial investment outlay and annual operating costs for the two systems are expected to be as follows:

	System A	System B
Initial Investment Outlay	Rs. 5 million	Rs. 4 million
Annual Operating Costs	Rs.1.5 million	Rs.1.6 million
Salvage value	Rs.1 million	Rs.0.5 million

If the hurdle rate is 15%, which system should ABC Chemicals choose?
State the significance of Net Present Value?

[15]

8. The share of a certain stock paid a dividend of Rs.3.00 last year. The dividend is expected to grow at a constant rate of 8 percent in the future. The required rate of return on this stock is considered to be 15 percent. How much should this stock sell for now? Assuming that the expected growth rate and required rate of return remain the same, at what price should the stock sell 3 years hence? Differentiate between liquidity position and solvency position. How can you measure liquidity position and solvency position of a company?

[(8+7) = 15]

9. The following information is related to the year 1 and 2 of a company.

	Year 1	Year 2
Sales	Rs.10000	Rs. 14000
Profit	-----	Rs. 1500
Loss	Rs. 500	-----

- v. Calculate fixed cost.
- vi. Calculate breakeven sales.
- vii. Calculate the profit when sale is Rs. 50000.
- viii. Calculate the sales to earn a profit of Rs. 30000.

What do you understand by angle of incidence?

[12 + 3 = 15]

10. What are the objectives of financial management? State the responsibilities of a financial manager?

[8 + 7 = 15]

11. The following is the capital structure of a firm.

<u>Sources</u>	<u>Rs.</u>
Equity Share Capital (10000 shares @ Rs. 10 each)	1000000
14% Preference Share Capital	700000
15% Debenture	300000

Calculate financial Break even EBIT? Calculate the DFL when EBIT is Rs. 800000. Calculate the DFL at financial breakeven point? State the difference between NPV and BCR?

[10 + 5 = 15]