17656

BRAINWARE UNIVERSITY

Term End Examination 2024-2025
Programme – MBA-2024
Course Name – Corporate Finance
Course Code - MBA20115
(Semester II)

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Brainware University
398, Ramkrishnapur Road, Barasat
Kolkata, West Bengal-700125

Full Marks : 60 **Time : 2:30 Hours**

[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) 1 x 15=15

1. *Choose the correct alternative from the following :*

(i) Time Value of Money states _______. Select the correct option.

a) Money has different values in different countries
b) Money has the same value over time
c) Money has more value in the future than it does today
d) Money has more value today than it does in the future

(ii) Select the primary objective of financial management for shareholders.

a) Maximizing shareholders wealth
b) Marketebility
c) Increase goodwill
d) Maximize risk

(iii) Illustrate the nature of Capital Budgeting.

a) It focuses on short-term financial decisions
b) It involves evaluating investment opportunities with a focus on long-term benefits
c) It primarily deals with operational budgeting
d) It emphasizes maximizing revenue in the short run

(iv) Interpret the Internal Rate of Return (IRR).

a) The rate at which the project breaks even
b) The rate at which the project generates positive cash flows
c) The discount rate that makes the net present value of a project's cash flows equal to zero
d) The percentage return on the initial investment

(v) Explain the term "Terminal Value" in the context of capital budgeting.

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a) The residual value of an investment project at the end of its useful life
b) The present value of all future cash flows of an investment project
c) The total cost of an investment project including all initial and ongoing expenses
d) The rate of return expected from an investment project

(vi) Identify the correct option. The method to move from present value to future value is called _______.

a) Compunding
b) Discounting
c) Discount value
d) Annuity

(vii) Calculate profitability index if PV of cash inflow is Rs. 100000 and initial cash outlay is Rs. 100000.

a) 1
b) 2
c) 3
d) 4

(viii) Identify the future value when the present value is Rs. 100, the interest rate is 10%, and the time period is 3 years.

a) 121
b) 110
c) 133.1
d) 120

(ix) Choose the formula for calculating the cost of equity share using the Capital Asset Pricing Model (CAPM).

a) Cost of Equity = Dividend per Share/Market Price per Share
b) Cost of Equity = Risk-Free Rate Beta x (Market Return - Risk-Free Rate)
c) Cost of Equity = (Dividend per Share Earnings per Share) x 100
d) Cost of Equity = Dividend Yield Capital Gain Yield

(x) Rao Corporation has a target capital structure of 60% equity and 40% debt. Its cost of equity is 18% and its pre - tax cost of debt is 13%. If the relevant tax rate is 35%, compute the WACC of Rao Corporation and choose the correct option.

a) 0.1418
b) 0.0556
c) 0.1576
d) 0.0433

(xi) Appraise the importance of maintaining adequate working capital.

a) Ensures profitability
b) Supports long-term investments
c) Ensures smooth business operations
d) Reduces employee turnover

(xii) Estimate the working capital requirement: Current Assets = ₹7,00,000; Current Liabilities = ₹2,50,000.

a) 950000
b) 450000
c) 250000
d) 700000

(xiii) Categorize "paying suppliers" under the motives of holding cash.

a) Transaction Motive
b) Speculative Motive
c) Precautionary Motive
d) Investment Motive

(xiv) Estimate the cash collection, if out of ₹1,00,000 sales 80% have been collected in the same month.

a) 20000
b) 100000
c) 80000
d) 90000

(xv) Measure the trade-off involved in liberal credit policy.

a) High sales vs low risk
b) Low sales vs low risk
c) High sales vs higher bad debts
d) High cost vs low cash flow

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Examine the difference between the traditional and modern approach to financial management. (3)
3. Calculate the compound value of 10000 at the end of 3 year of 12% rate of interest when interest is calculated yearly basis. (3)
4. A company is considering an investment of 50,000 in a project expected to generate the following cash inflows over four years: Year 1: $15,000, Year 2: $20,000, Year 3: $10,000, Year 4: $10,000. The required discount rate is 10%. Calculate NPV. (3)
5. ABC Manufacturing Ltd. is considering two investment projects, Project A and Project B. The company has a limited budget and wants to choose the most profitable project using the Profitability Index (PI) method. Project Initial Investment A 1,00,000 B 1,50,000 Present Value of Cash Inflows A 140,000 B 1,95,000. (3)
6. Compare Permanent and Temporary Working Capital. (3)

OR

Measure the effectiveness of Cash Management and its objectives. (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Justify the factors that determine the working capital needs of a firm. (5)
8. Summarize the determinants of Working Capital. (5)
9. A machine will cost Rs. 500,000 and will provide annual net cash inflow of Rs.150,000 for six years. The cost of capital is 15 per cent. Estimate the Net Present Value evaluate and show whether the decision to purchase such machine is right or not. (5)
10. Visualize the difference between profit maximization and wealth maximization. (5)
11. Explain the factors influencing the beta of an equity share of a company. (5)
12. A company is considering investing Rs. 50,000 in a project that is expected to generate cash flows of Rs. 15,000 at the end of each year for 5 years. The discount rate for the project is 10%. Calculate the Profitability Index (PI) for this project. (5)

OR

A company issues 10 per cent irredeemable preference shares. The face value per share is Rs. 100, but the market price is Rs. 95. What is the cost of a preference share? What is the cost if the market price is Rs. 105? (5)

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