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BRAINWARE UNIVERSITY

Term End Examination 2024-2025
Programme – BBA-Hons-2023/BBA(DM)-Hons-2023/BBA-Hons-2024/BBA(DM)-Hons-2024
Course Name – Financial Management
Course Code - BBA20103/BBD20103/BBA20202/BBD20202
(Semester II)

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) Predict the method that calculates the rate of return at which the present value of cash inflows equals the initial investment.

a) Payback period
b) Internal rate of return
c) Net present value
d) Profitability index

(ii) Describe the purpose of calculating ARR.

a) To assess liquidity
b) To determine profitability
c) To evaluate solvency
d) To measure marketability

(iii) Explain financial management.

a) Managing money transactions
b) Management of financial resources
c) Managing inventory levels
d) Managing human resources

(iv) Select the correct option about Financial management .

a) Maximizing profits
b) Minimizing costs
c) Maximizing shareholder wealth
d) All of the above

(v) Identify the relationship between risk and return.

a) Inverse
b) Direct
c) Random
d) Constant

(vi) Cite the meaning of the term "cost of capital".

a) The cost of goods sold by a firm
b) The cost of equity financing
c) The cost of debt financing
d) The cost of raising capital

(vii) Identify the statement which is true about risk.

a) Risk can be completely eliminated
b) Risk and return are unrelated
c) Higher risk is always desirable
d) Risk can be managed

(viii) Choose the basis of the weights given to each component while calculating the WACC .

a) The book value of each component
b) The market value of each component
c) The historical cost of each component
d) The accounting value of each component

(ix) Explain the reason why the price of preferred stock is more than the price of debt.

a) Preferred dividends are tax-deductible
b) Preferred dividends are fixed and paid before common stock dividends
c) Preferred stockholders have voting rights
d) Preferred stockholders have limited liability

(x) In the context of the Cost of Capital, interpret what "marginal cost of capital" refers to.

a) The cost of the last dollar of new capital raised
b) The average cost of all sources of capital
c) The cost of equity capital only
d) The cost of debt capital only

(xi) Determine the cost of Debt.

a) The interest rate paid to bond holders
b) The dividend paid to equity shareholders
c) The commission paid to investment bankers
d) The premium paid to preferred shareholders

(xii) Determine the concept of "financial leverage".

a) The use of debt to increase the return on equity
b) The use of equity to increase the return on assets
c) The use of assets to increase the return on debt
d) The use of debt to increase the return on assets

(xiii) Apply the correct option which is true regarding the relationship between debt and cost of equity.

a) Higher levels of debt tend to increase the cost of equity
b) Higher levels of debt tend to decrease the cost of equity
c) Debt has no impact on the cost of equity
d) The cost of equity is always lower than the cost of debt

(xiv) Select the scope of financial management.

a) Managing personal finances only
b) Managing finances in non-profit organizations
c) Managing finances in business organizations
d) Managing finances in government agencies

(xv) Identify the approach of financial management that focuses on maximizing shareholder wealth.

a) Profit maximization approach
b) Traditional approach
c) Wealth maximization approach
d) Behavioral approach

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Develop a cost of capital estimation model for a specific industry. (3)
3. Calculate the cost of debt. DEF Ltd. issued bonds with a face value of 1,000, paying an annual coupon rate of 6%. If the current market price of the bond is 950. (3)
4. Write about accounting rate of return (3)
5. Estimate the cost of redeemable debt with a face value of 1,000,000, a current market price of 950,000, an annual interest payment of 50,000, and a maturity date of 5 years. (3)
6. Evaluate operating leverage. Sales Revenue: 15,000 Variable Costs: 6,000 Fixed Costs: 4,000 (3)

OR

Explain the assumptions of net income theory of capital structure. (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Explain the concept of dividend irrelevance theory proposed by Modigliani and Miller. (5)
8. Explain the types of dividends a company can offer. (5)
9. Define financial management and explain its importance in achieving organizational goals. (5)
10. Differentiate between profit maximization and shareholder wealth maximization. (5)
11. Describe the NPV method and provide a step-by-step explanation of how it is calculated. (5)
12. Evaluate ARR. Initial Investment: Rs. 80,000 Annual Profit: Rs. 15,000 Salvage Value: Rs. 8,000 Useful Life: 6 years (5)

OR

Estimate the combined leverage. The following particulars are available : Sales Rs. 1,00,000 Variable Cost Rs. 70,000 Fixed Cost Rs. 20,000 Long term loans Rs. 50,000 At 10 percent. (5)

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