# BRAINWARE UNIVERSITY



**Term End Examination 2024-2025**
**Programme – B.Com.(AFB)-Hons]-2023**
**Course Name – Financial Management**
**Course Code - BBF40109**
**( Semester IV )**

**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) Identify the primary objective of financial management.
a) Maximizing shareholder wealth b) Minimizing expenses
c) Increasing Fame d) Enhancing product quality

(ii) Recognize the basic formula used to calculate Future Value (FV).
a) FV = PV * (1 + r)n b) FV = PV * (1 + r)^n
c) FV = PV * (1 + r) d) FV = PV / (1 + r)^n

(iii) Locate the component of ris in the CAPM model.
a) Market risk premium b) Risk-free rate
c) Company's earnings d) Total maret value

(iv) Recognize the primary use of the Capital Asset Pricing Model (CAPM).
a) To determine the cost of equity b) To estimate future stock prices
c) To evaluate bond yields d) To calculate interest rates

(v) Select the correct formula to calculate the expected return using CAPM.
a) Expected Return = Risk-free Rate + Beta * (Market Return - Risk-free Rate) b) Expected Return = Ris-free Rate + Maret Return
c) Expected Return = Beta * Maret Return d) Expected Return = Ris-free Rate + Beta * Maret Return

(vi) Recall the term used for the value of cash flows at the end of the project.
a) Net terminal value b) Payback period
c) Internal Rate of Return d) Profitability index

(vii) Classify the following as a characteristic of the payback period method: Time to achieve profitability.
a) Time to recover initial investment b) Time to achieve maximum profitability
c) Time to reach net present value d) Time to achieve break-even point

(viii) Show the main disadvantage of the Accounting Rate of Return (ARR) method.

a) Ignores cash flows
b) Considers time value of money
c) Difficult to calculate
d) Complex to understand

(ix) Give an example of a situation where the payback period method might be preferred over NPV.

a) High risk projects
b) Long-term investment projects
c) Projects with stable cash flows
d) Short-term investment projects

(x) Determine which capital budgeting method considers the value of future cash flows.

a) Payback period
b) Accounting rate of return
c) Net Present Value
d) Profitability index

(xi) Calculate the NPV given an initial investment of Rs.100,000, a discount rate of 10%, and cash flows of Rs.30,000, Rs.40,000, and Rs.50,000 over three years.

a) Rs.15,930
b) Rs.20,540
c) Rs.10,890
d) Rs.25,670

(xii) Calculate the Payback Period for an investment with an initial cost of Rs.50,000 and annual cash inflows of Rs.10,000.

a) 5 years
b) 6 years
c) 7 years
d) 8 years

(xiii) Determine the IRR if the initial investment is Rs.80,000 and the cash inflows over 4 years are Rs.20,000, Rs.30,000, Rs.25,000, and Rs.35,000.

a) 0.12
b) 0.15
c) 0.18
d) 0.2

(xiv) Illustrate the impact of increasing the discount rate on NPV.

a) NPV decreases
b) NPV increases
c) NPV remains unchanged
d) NPV first increases then decreases

(xv) Predict the effect on the Payback Period if annual cash inflows increase.

a) Payback period will decrease
b) Payback period will increase
c) Payback period will remain the same
d) Payback period will double

## Group-B

(Short Answer Type Questions) 3 x 5=15

2. Classify the different types of capital budgeting techniques. (3)
3. Discuss the importance of cost of capital in investment decisions. (3)
4. Determine the NPV of an investment with cash inflows of Rs. 20,000 for 5 years and a discount rate of 10%. (3)
5. A firm has a contribution margin of Rs. 50 per unit, fixed costs of Rs. 100,000, and interest expenses of Rs. 20,000. If the firm sells 5,000 units, calculate the Operating Income (EBIT). (3)
6. Infer the implications of a high debt-to-equity ratio for a company's financial stability. (3)

**OR**

Express the relationship between risk and return in the context of capital budgeting decisions. (3)

## Group-C

(Long Answer Type Questions) 5 x 6=30

7. Appraise the impact of time value of money on financial decision-making. (5)
8. Explain the appropriateness of various capital budgeting techniques in investment decision-making. (5)
9. A project costs Rs. 20,00,000 and yields annually a profit of Rs. 3,00,000 after depreciation @ 12½% but before tax at 50%. Calculate the pay-back period. (5)
10. Find out the economic order quantity and the number of orders per year from the following information: Annual consumption: 36,000 units Purchase price per units: Rs. 54. Ordering cost per order: Rs. 150 Inventory carrying cost is 20% of the average inventory. (5)

11. A company has sales of ₹800,000, variable costs of ₹400,000, and fixed costs of ₹200,000. Calculate the Degree of Operating Leverage (DOL). (5)
12. Criticize the traditional view of working capital as solely a measure of liquidity. (5)

**OR**

A company has two alternative proposals. The details are as follows: Proposal I Proposal II Automatic Machine Rs. 2,20,000 Ordinary Machine Rs. 60,000 Estimated life 5½ years for Automatic, 8 years for Ordinary Machine Estimated sales p.a. Rs. 1,50,000 Rs. 1,50,000 Costs : Material Rs. 50,000 Rs. 50,000 Labour Rs. 12,000 Rs. 60,000 Variable OverheadsRs. 24,000 Rs. 20,000 Compute the profitability of the proposals under the return on investment method (5)

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