



## BRAINWARE UNIVERSITY

Term End Examination 2023

Programme – BBA-2019/BBA-2020/BBA-2021

Course Name – Financial Management

Course Code - BBAC403

( Semester IV )

*Library*  
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**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) Calculate accounting rate of return if average income is Rs. 10000 and average investment is Rs. 100000.
- |         |         |
|---------|---------|
| a) 0.1  | b) 0.12 |
| c) 0.14 | d) 0.16 |
- (ii) Choose among the asset-liability combination which would most likely result in the firm's having the greatest risk of technical insolvency.
- |  |  |
|--|--|
| a) Increasing current assets while lowering current liabilities.                         | b) Increasing current assets while incurring more current liabilities. |
| c) Reducing current assets, increasing current liabilities, and reducing long-term debt. | d) Replacing short-term debt with equity.                              |
- (iii) If two alternative proposals are such that the acceptance of one shall exclude the possibility of the acceptance of another then such decision making will lead to \_\_\_\_\_. (Identify The correct answer.)
- |                               |                           |
|-------------------------------|---------------------------|
| a) Mutually exclusive project | b) Accept reject decision |
| c) Contingent decision        | d) None of the above      |
- (iv) If the cut off rate is greater than IRR, indicate what we may do. (Identify The correct answer)
- |                        |                        |
|------------------------|------------------------|
| a) Accept the proposal | b) be neutral about it |
| c) Reject the proposal | d) None of the above   |
- (v) While evaluating capital investment proposals, time value of money is used in which of the following techniques? (Select the correct answer)
- |                             |                              |
|-----------------------------|------------------------------|
| a) Payback method           | b) Accounting rate of return |
| c) Net present value method | d) All of the above          |
- (vi) \_\_\_\_\_ of a firm refers to the composition of its long-term funds and its capital structure. Identify The correct answer.
- |                        |                          |
|------------------------|--------------------------|
| a) Over-capitalization | b) Under-capitalization  |
| c) Capitalisation      | d) Market capitalization |

- (vii) What is the primary objective of a company's capital structure? Identify The correct answer.
- a) To maximize the value of the company                      b) To minimize the cost of capital  
 c) To maximize the earnings per share                        d) To minimize the financial risk
- (viii) Identify the concept related to annuity among the following: PV, FV, FVIFA, risk.
- a) PV    b) FV  
 c) risk    d) FVIFA
- (ix) Select among the following that can be attributed to an individual's time preference for money.
- a) His family background    b) His choice of cars  
 c) Investment opportunities    d) His vacation preference
- (x) Agency cost consists of \_\_\_\_\_. (Identify)
- a) Binding    b) All the other three  
 c) Monitoring    d) Opportunity and structure cost
- (xi) When equal payments are made/received at the beginning of each year, it is called \_\_\_\_\_. (Identify)
- a) Annuity    b) Annuity due  
 c) Capital recovery factor    d) Effective interest
- (xii) If compounding is done more than a year, the annualized rate of interest is called \_\_\_\_\_. (Select)
- a) Nominal interest rate    b) Repo rate  
 c) Reverse repo rate    d) Effective interest rate
- (xiii) The bond interest rate is fixed and known to bondholders beforehand. What is this rate called? (Select among the following)
- a) Coupon rate    b) Nominal rate  
 c) Real rate    d) Inflationary rate
- (xiv) \_\_\_\_\_ is the minimum required rate of earnings or the cut off rate of capital expenditure. Choose The correct answer.
- a) Cost of capital    b) Working capital  
 c) Equity capital    d) Debt capital
- (xv) Economic resources of business that expected to be of benefit in future time referred as \_\_\_\_\_. Choose The correct answer.
- a) Owners Equity    b) Liabilities  
 c) Withdrawals    d) Assets

**Group-B**

(Short Answer Type Questions)

3 x 5=15

2. Explain the concept of free cash flow to firm (FCFF). (3)
3. The cash inflow for next two years are Rs. 19000 and Rs. 30000 respectively against a cash outflow of Rs. 50000 now. Evaluate the NPV if the required rate of return is 13%. (3)
4. Define dividend per share and retention ratio. (3)
5. Explain the utility of mean and standard deviation return. (3)
6. Explain capital asset pricing model (CAPM). (3)

OR

Explain the concept of financial leverage. (3)

**Group-C**

(Long Answer Type Questions)

5 x 6=30

7. Suppose a firm is expecting a perpetual net operating income of Rs.150 crore on assets of Rs.1500 crore which are entirely financed by equity. The firm's equity capitalization rate is (5)



- 10%. The firm is considering to substitute the equity capital by issuing perpetual debentures of Rs.300 crore at 6% interest rate. The cost of equity is expected to increase to 10.56%.The firm is also considering raising perpetual debentures of Rs.600 crore and replacing equity. The debt-holders will charge interest of 7% and the cost of equity will rise to 12.50% to compensate shareholders for higher financial risk. Apply the concept of capital structure and draw the cost of capital graph explaining all three stages (increasing, optimum and declining value).
8. Describe return. Identify the components of (total) return? Should unrealized capital gain (or loss) be included in the calculation of return? (5)
9. On 1 January 2013, Mr Y.P. Sinha purchased 100 shares of L&T at Rs.212 each. During the year, he received total dividends of Rs.700. Mr. Sinha sold all his shares at Rs.215 each on 31 December 2013. Calculate Mr. Sinha's (i) capital gain amount, and (ii) total return in (a) rupee amount and (b) percentage. Thereafter associate the concept with dividend yield, capital gains yield and total return. (5)
10. Assuming a 10 per cent discount rate, calculate the present value of Rs. 1,100; Rs. 900; Rs. 1,500 and Rs. 700 received at the end of one through four years. (5)
11. Suppose an investor is considering the purchase of a 5 year Rs.1000 par value bond bearing a nominal rate of interest of 6.5%. If the investor's required rate of return is 9%, what should he be willing to pay to purchase the bond if it matures at par? Calculate. (5)
12. A project costs Rs. 40,000.Its stream of earnings before depreciation, interest and taxes (EBDIT) from 1 to 5 years is expected to be Rs.10000,Rs.12000,Rs.14000,Rs.16000 and Rs.20000. Assume a 50% tax rate and depreciation on straight line basis. Evaluate the project's Accounting rate of return. (5)

**OR**

Dividend now is Rs. 4.48 and equity capitalization rate is 17%.Evaluate the share price if the dividend growth is zero percent. (5)

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