



BRAINWARE UNIVERSITY

Term End Examination 2023-2024
Programme – MBA(HM)-2023
Course Name – Financial Management
Course Code - MBAHM201
(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) Select the correct one-the span of time within which the investment made for the project will be recovered by the net returns of the project is _____.
- | | |
|--------------------|-----------------------|
| a) PBP method. | b) Period of Return. |
| c) Span of Retrun. | d) None of the above. |
- (ii) Identify the correct option, capital budget is associated with _____.
- | | |
|---------------------------------------|-----------------------|
| a) Long terms and short terms assets. | b) Fixed assets. |
| c) Long term assets. | d) Short term assets. |
- (iii) Select the correct one-finance function comprises of _____.
- | | |
|---------------------------------|--|
| a) Safe custody of funds only. | b) Expenditure of funds only. |
| c) Procurement of finance only. | d) Procurement & effective use of funds. |
- (iv) Select correct option. _____ is one that maximizes value of business, minimizes overall cost of capital, that is flexible, simple and futuristic, that ensures adequate control on affairs of business by the owners and so on.
- | | |
|-------------------------------|--------------------------------|
| a) Minimal Capital Structure. | b) Moderate Capital Structure. |
| c) Optimal Capital Structure. | d) Deficit Capital Structure. |
- (v) Select the correct one-purpose of financial management is.
- | | |
|-------------------------|-------------------------|
| a) Wealth Maximization. | b) Sales Maximization. |
| c) Profit Maximization. | d) Assets maximization. |
- (vi) Identify the correct one-Financial management deals with.
- | | |
|------------------|-------------------------|
| a) Investments. | b) Financing decisions. |
| c) Both a and b. | d) None of the above. |

- (vii) Select correct option. Consider the below mentioned statements: 1. A debt-equity ratio of 2:1 indicates that for every 1 unit of equity, the company can raise 2 units of debt. 2. The cost of floating a debt is greater than the cost of floating an equity issue.
- a) 1-True, 2-True. b) 1-False, 2-True.
 c) 1-False, 2-False. d) 1-True, 2-False.
- (viii) Determine the correct answer-How are earnings per share calculated.
- a) Use the income statement to determine earnings after taxes (net income) and divide by the previous period's earnings after taxes. Then subtract 1 from the previously calculated value.
- b) Use the income statement to determine earnings after taxes (net income) and divide by the number of common shares outstanding..
- c) Use the income statement to determine earnings after taxes (net income) and divide by the number of common and preferred shares outstanding..
- d) Use the income statement to determine earnings after taxes (net income) and divide by the forecasted period's earnings after taxes. Then subtract 1 from the previously calculated value..
- (ix) Select which of the following is NOT a cash outflow for the firm.
- a) depreciation. b) dividends.
 c) interest payments. d) taxes.
- (x) Determine the correct answer-A capital investment is one that.
- a) has the prospect of long-term benefits. b) has the prospect of short-term benefits.
 c) is only undertaken by large corporations. d) applies only to investment in fixed assets.
- (xi) Select which of the following cost of capital require to adjust tax.
- a) Cost of Equity Shares. b) Cost of Preference Shares,.
 c) Cost of Debentures. d) Cost of Retained Earnings..
- (xii) Select the correct option. Firm's Cost of Capital is the average cost of.
- a) All sources of finance,.
 c) All share capital.
- b) All Borrowings.
 d) All Bonds & Debentures.
- (xiii) Select the correct option. What is the overall (weighted average) cost of capital when the firm has Rs 20 crore in long-term debt, 4 crore in preferred stock, and Rs 16 crore inequity shares. The before-tax cost for debt, preferred stock, and equity capital are 8%, 9%, and 15%, respectively. Assume a 50% tax rate, calculate.
- a) 7.60%. b) 6.90%.
 c) 7.30%. d) 8.9%.
- (xiv) Select the correct option. Which of the following statements is true regarding the Payback Period method of investment evaluation.
- a) It considers the time value of money b) It is calculated by dividing the initial investment by the annual cash flows
 c) It is a measure of a project's profitability d) It indicates the length of time required to recover the initial investment
- (xv) Select the correct option. A firm's optimal capital structure refers.
- a) Is the debt-equity ratio that results in the minimum possible weighted average cost of capital..
 c) When the debt-equity ratio is .50.
- b) 40 percent debt and 60 percent equity.
 d) When Cost of equity is minimum.

Group-B

(Short Answer Type Questions)

3 x 5=15

2. Describe dividend decisions of a firm in brief. (3)
3. Describe the concept of nominal and effective interest. (3)
4. Define the term 'temporary working capital.' (3)
5. Explain the significance of financial leverage. (3)
6. ABC Ltd issues 12% irredeemable debt of Rs 50,00,000. The corporate tax rate is 35%. Evaluate after tax cost of debt if floatation cost is 2% on face value of debentures and debentures are issued at 1) 10% discount 2) 10% premium (3)

OR

Evaluate the total present value of a stream of cash flow of Rs. 100 to be received for the next 5 years at an interest rate of 10%. (3)

Group-C

(Long Answer Type Questions)

5 x 6=30

7. A project has a cash outflow of Rs. 10000 and inflow of Rs. 5000 and Rs. 10000 in next two years. Evaluate the payback period of the project. (5)
8. Anticipate the share's price today. A company paid a dividend of Rs.3.70 in the previous year. The dividends in the future are expected to grow perpetually at a rate of 8 per cent. Given, dividend is equal to 12 percent. (5)
9. Explain the concept of working capital cycle. (5)
10. Explain the concept of financial reporting. (5)
11. Illustrate your views on the statement, 'The profit maximization is not an operationally feasible criterion'. (5)
12. Mahesh Ltd has a net operating income of Rs. 30,00,000. Mahesh Ltd employs Rs. 1,00,00,000 of debt capital carrying 10% interest. The equity capitalisation rate applicable to Mahesh Ltd is 15%. Evaluate the market value of Mahima under the net income method, assuming there is no tax. (5)

OR

Calculate NPV. A company is considering investing in a project that requires an initial investment of \$50,000. The project is expected to generate cash inflows of \$20,000 per year for the next 5 years. The company's discount rate or cost of capital is 10%. (5)
