



## BRAINWARE UNIVERSITY

Term End Examination 2025-2026

Programme – B.Com.(AFB)-Hons]-2023/B.Com.(AFB)-Hons]-2024

Course Name – Financial Management

Course Code - BBF40109/BBF40106

( 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) Explain what Present Value refers to.
  - a) Future worth of money
  - b) Current worth of a future sum
  - c) Total profit earned
  - d) Initial cost of asset
- (ii) Define Future Value.
  - a) Current worth of money
  - b) Value of money after being invested
  - c) The original cost
  - d) Total debt owed
- (iii) Define the term Capital Budgeting as used in financial management.
  - a) A process for short-term planning
  - b) Evaluating and selecting long-term investments
  - c) Recording daily transactions
  - d) Managing payroll systems
- (iv) Identify which method is categorized as a traditional technique of capital budgeting.
  - a) Net Present Value
  - b) Internal Rate of Return
  - c) Payback Period
  - d) Profitability Index
- (v) Select the decision criterion for the ARR method.
  - a) Accept if ARR is less than required rate
  - b) Accept if ARR is zero
  - c) Accept if ARR is higher than required rate
  - d) Reject if ARR is positive
- (vi) Explain the central idea behind the Net Present Value (NPV) method.
  - a) A rupee today is worth less than tomorrow
  - b) A rupee today is worth more than in the future
  - c) Cash flows are irrelevant
  - d) Only accounting profits matter
- (vii) Choose the Payback Period if investment is Rs. 100,000 and annual savings are Rs. 50,000.
  - a) 1 year
  - b) 2 years
  - c) 3 years
  - d) 0.5 years
- (viii) Select the Average Investment if the initial cost is Rs. 60,000 and salvage value is Rs. 0.

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- a) Rs. 60000  
c) Rs. 30000
- b) Rs. 120000  
d) Rs. 15000
- (ix) Tell the total profit over 4 years if the Average Net Income is Rs. 8,000.
- a) Rs. 2000  
c) Rs. 32000
- b) Rs. 12000  
d) Rs. 8000
- (x) Tell which formula is used to calculate the cost of perpetual debt after tax ( $K_d$ ).
- a)  $I/P$   
c)  $(I+P)/2$
- b)  $I(1-t)/P$   
d)  $D/P$
- (xi) Choose the component of capital that has a prior right to dividends but no voting rights in normal circumstances.
- a) Equity Shares  
c) Preference Shares
- b) Debentures  
d) Term Loans
- (xii) Choose the variable represented by  $\beta$  (Beta) in the CAPM formula.
- a) Risk-free rate  
c) Systematic risk of the security
- b) Market risk premium  
d) Unsystematic risk
- (xiii) Choose the factor that would cause the Marginal Cost of Capital schedule to shift upward.
- a) Decrease in tax rates  
c) Decrease in interest rates
- b) Increase in flotation costs  
d) Increase in stock price
- (xiv) Identify the term for the difference between the Market Return ( $R_m$ ) and the Risk-Free Rate ( $R_f$ ).
- a) Beta  
c) Market Risk Premium
- b) Alpha  
d) Standard Deviation
- (xv) Choose the component that does not provide a tax shield to the company.
- a) Debentures  
c) Equity Dividends
- b) Term Loans  
d) Bank Overdraft Interest

### Group-B

(Short Answer Type Questions)

 $3 \times 5 = 15$ 

2. Cite the key determinants of capital structure. (3)
3. Calculate the Degree of Operating Leverage (DOL) if a company's sales increase from Rs.100,000 to Rs.120,000, resulting in an EBIT increase from Rs.30,000 to Rs.40,000. (3)
4. Determine the Earnings Before Interest and Taxes (EBIT) required to cover fixed costs of Rs.200,000 and interest expenses of Rs.50,000 if the contribution margin per unit is Rs. 25 and sales volume is 10,000 units. (3)
5. The following information are being provided: Selling Price per unit = ₹300 Variable Cost per unit = ₹180 Fixed Cost = ₹1,50,000 Units Sold = 6,000 10% Debentures = ₹4,00,000 Equity Share Capital (₹100 per share) = ₹6,00,000 Tax Rate = 30% Compute: Operating Leverage, Financial Leverage and Combined Leverage. (3)
6. You are required to calculate the Net Present Value (NPV) and Profitability Index (PI) of Hearing Ltd. from the following two project: Cash inflows: 2000, 4000, 3000 and 1500. Additional Information: 1. Cash Outflows are amounted 7800. 2. Rate of interest is @ 10% p.a. 3.All the amounts are given in INR. (3)

**OR**

A company issues 11% debentures of ₹100 each at par. They are redeemable after 5 years at a premium of 5%. Tax rate is 35%. You are required to calculate the After-tax Cost of Redeemable Debentures.

### Group-C

(Long Answer Type Questions)

 $5 \times 6 = 30$

7. ABC Manufacturing Ltd. is evaluating an expansion project with uneven cash flows for two alternative projects, U and V. The cash inflows for Project U are ₹10,000 in Year 1, ₹12,000 in Year 2, ₹8,000 in Year 3, ₹4,000 in Year 4, and ₹2,000 in Year 5. The cash inflows for Project V are ₹2,000 in Year 1, ₹8,000 in Year 2, ₹4,000 in Year 3, ₹12,000 in Year 4, and ₹10,000 in Year 5. The initial investment required for each project is ₹25,000, and the cost of capital is 14%. You are required to calculate the present value of the total cash inflows for each project, compute the Profitability Index (PI), and recommend which of the projects should be accepted according to the PI decision rule. (5)
8. Explain the following phases in relation to financial management: Profit maximization, wealth maximization, and optimum allocation & utilization of funds. (5)
9. XYZ Ltd. issued equity shares of ₹100 each at a market price of ₹120. The company expects a dividend of ₹15 per share next year and the growth rate of dividend is 4% per annum. It also issued 12% preference shares of ₹100 each at par. The company has taken a loan of ₹2,00,000 at 10% interest. Tax rate is 25%. Calculate: (a) Cost of Equity Capital (b) Cost of Preference Capital (c) After-tax Cost of Debt (5)
10. Evaluate the implications of stock buybacks versus cash dividends for shareholder returns. (5)
11. Calculate the NPV of a project in Ganesh that requires an investment of ₹25,000 and estimated cash inflows from the project are ₹9,000, ₹8,000, ₹7,000, ₹6,000, and ₹5,000 respectively for 5 years. The required rate of return on investment is 10%. (5)
12. ABC Ltd. has the following particulars: the selling price per unit is Rs. 200, the variable cost per unit is Rs. 100, and the total fixed cost amounts to Rs. 2,00,000. The production during the year is 8,000 units, and the corporate tax rate is 30%. The capital structure of the firm consists of equity share capital of Rs. 2,00,000 (Rs. 100 per share), 8% preference share capital of Rs. 1,00,000 (Rs. 100 per share), 12% debentures of Rs. 50,000, and a long-term loan of Rs. 10,000 carrying interest at 10% per annum. You are required to calculate the Degree of Operating Leverage, the Degree of Financial Leverage, the Degree of Combined Leverage, and the Earnings Per Share (EPS). (5)

**OR**

A company has the following capital structure: Equity share capital of ₹6,00,000, 10% Preference share capital of ₹2,00,000, and 12% Debentures of ₹2,00,000. The cost of equity is 15%. The corporate tax rate is 30%. Calculate the Weighted Average Cost of Capital (WACC) of the company. (5)

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