30365-33717-34800-34856

BRAINWARE UNIVERSITY

Term End Examination 2025-2026
Programme – BBA-Hons-2023/BBA(DM)-Hons-2023/BBA-Hons-2024/BBA(DM)-Hons-2024/BBA-Hons-2025/BBA(DM)-Hons-2025
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) Select the primary reason companies retain earnings.

a) To reinvest for growth b) To pay off debt
c) To increase dividends d) To repurchase stock

(ii) Show the relationship between dividends and firm value according to the Gordon Model.

a) Higher dividends increase value b) Dividends have no effect
c) Lower dividends increase value d) Dividends reduce market share

(iii) Classify the reason behind companies adopting a stable dividend policy.

a) Predictable cash flows b) Attracts long-term investors
c) Minimizes risk d) Increases growth potential

(iv) Cite the role of dividend reinvestment plans (DRIPs).

a) Encourages stock purchases b) Allows shareholders to reinvest dividends
c) Reduces administrative costs d) Increases market volatility

(v) Calculate the dividend payout ratio if a company pays Rs.50,000 in dividends and has a net income of Rs. 200,000.

a) 0.1 b) 0.25
c) 0.5 d) 0.75

(vi) Articulate how market perceptions can affect dividend policy.

a) Strong growth leads to higher dividends b) Poor performance leads to increased dividends
c) Dividends are a sign of financial health d) All of the above

(vii) Determine the impact of a dividend cut on a company's stock price.

a) Price generally increases b) Price generally decreases
c) No significant impact d) Price becomes volatile

(viii) Illustrate the effects of a stock dividend on total equity.

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a) Increases equity
b) Decreases equity
c) No change
d) Equity changes based on earnings

(ix) Choose the optimal dividend policy for maximizing shareholder wealth.

a) Residual Dividend Policy
b) Irregular Dividend Policy
c) Constant Dividend Policy
d) Stable Dividend Policy

(x) Write a brief explanation of why companies prefer cash dividends.

a) Immediate return to investors
b) Tax benefits
c) Easier to manage
d) All of the above

(xi) Predict the effect of paying a higher dividend on a company's stock price.

a) Stock price rises
b) Stock price falls
c) No change
d) Price becomes uncertain

(xii) Calculate the total dividends paid if a company has 10,000 shares outstanding and pays a Rs. 3 dividend per share.

a) Rs.10,000
b) Rs.20,000
c) Rs.30,000
d) Rs.40,000

(xiii) Articulate how stock dividends can serve as a signaling mechanism.

a) Indicate financial strength
b) Suggest potential issues
c) Neutral signal
d) All of the above

(xiv) Determine the main rationale behind the residual dividend policy.

a) Minimize debt
b) Maximize reinvestment opportunities
c) Maintain consistent dividends
d) Distribute excess cash flow

(xv) Illustrate how dividend policies can affect a company's cost of capital.

a) Higher dividends increase costs
b) Lower dividends decrease costs
c) No effect on costs
d) Both higher and lower can affect costs

Group-B

(Short Answer Type Questions) 3 x 5=15

2. Calculate the NPV of the project Company A is evaluating a project with an initial investment of 200,000. The project is expected to generate cash flows of 50,000, 70,000, 80,000, and 100,000 over the next four years. Assume the discount rate is 10%. (3)
3. 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)
4. Calculate the net present value of Project X which costs Rs. 2,500 now and is expected to generate year-end cash inflows of Rs. 900, Rs. 800, Rs. 700, Rs. 600 and Rs. 500 in years 1 through 5. The opportunity cost of the capital may be assumed to be 10 per cent (3)
5. Calculate the weighted average cost of capital (WACC) Company JKL has a capital structure consisting of 40% equity, 50% debt, and 10% preference capital. The cost of equity is 12%, the cost of debt is 8%, and the cost of preference capital is 10% (3)
6. Evaluate operating leverage. Sales Revenue: 15,000 Variable Costs: 6,000 Fixed Costs: 4,000 (3)

OR

Evaluate operating leverage. Sales Revenue: Rs 12,000 Variable Costs: Rs 4,000 Fixed Costs: Rs 3,000 (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Discuss the factors that affect a firm's equity cost. (5)
8. Discuss the impact of taxes on the cost of debt for a corporation. (5)
9. Estimate how much money will you have in the account after 3 years if you Invest Rs. 10,000 in a savings account that offers an annual compound interest rate of 5%. (5)
10. Discuss how financial leverage affect the cost of equity for a firm. (5)
11. Explain how the cost of capital differs between debt and equity financing. (5)

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

OR

A Company expects a net income of Rs. 1,00,000. It has Rs. 2,50,000, 8% debentures. The equality capitalization rate of the company is 10%. Evaluate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax). (5)

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