38021-44243

BRAINWARE UNIVERSITY

Term End Examination 2025-2026
Programme – BBA(BA)-Hons-2024/BBA(BA)-Hons-2025
Course Name – Financial Management
Course Code - BBB20202
(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) Identify the scope of financial management.

a) Personal finance
b) Marketing research
c) Investment decisions
d) Product design

(ii) Select the long-term financial decision.

a) Inventory management
b) Capital investment
c) Employee performance review
d) Daily cash flow management

(iii) Select the most appropriate description of a perpetuity.

a) A fixed sum of money paid indefinitely
b) A series of equal payments for a fixed period
c) A one-time lump sum investment
d) An investment that declines in value over time

(iv) Select the major advantage of compound interest over simple interest.

a) Compound interest grows at a constant rate
b) Compound interest accumulates more wealth over time
c) Simple interest provides higher returns in the long run
d) Compound interest only applies to savings accounts

(v) Cite the relationship between financial risk and the cost of equity.

a) Directly proportional
b) Inversely proportional
c) No relationship
d) Exponential increase

(vi) Select the best method to determine the cost of retained earnings.

a) CAPM
b) Dividend Discount Model
c) Earnings yield
d) All of the above

(vii) Select an example of a risk-free security.

a) Corporate bond
b) Government bond
c) Equity share
d) Preference share

(viii) Cite the key variable in calculating cost of debt.

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a) Dividend growth
b) Interest rate
c) Earnings per share
d) Market capitalization

(ix) Select the impact of higher interest rates on cost of debt.

a) Increases
b) Decreases
c) No impact
d) Becomes negative

(x) Identify the capital structure theory that suggests an optimal mix of debt and equity exists.

a) Modigliani and Miller Theory
b) Trade-off Theory
c) Pecking Order Theory
d) Market Timing Theory

(xi) Choose the method that compares benefits to costs directly.

a) Net Present Value
b) Profitability Index
c) Internal Rate of Return
d) Payback Period

(xii) Choose the formula for the Payback Period.

a) Initial Investment ÷ Annual Cash Flow
b) Annual Cash Flow ÷ Initial Investment
c) Present Value of Cash Flow ÷ Initial Investment
d) Net Cash Flow ÷ Discount Rate

(xiii) Choose which technique is most appropriate for risk evaluation.

a) Payback Period
b) Internal Rate of Return
c) Sensitivity Analysis
d) Net Present Value

(xiv) Judge what happens if IRR equals the discount rate.

a) The project is accepted
b) The project is rejected
c) The project breaks even
d) The project loses money

(xv) Choose a key assumption of Gordon's Dividend Model.

a) Dividends have no impact
b) Investors prefer capital gains
c) Growth rate remains constant
d) Dividend payout does not matter

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. Define incremental (marginal) cost of capital. (3)
4. Explain the process of capital budgeting. (3)
5. Describe Walter's model of dividend policy. (3)
6. Assess the impact of a dividend policy on the valuation of a company. (3)

OR

Evaluate when A company is considering investing in a project that requires an initial investment of $50,000. The project is expected to generate the following cash flows over two years: Year 1: 20,000 Year 2: 30,000 Calculate the Profitability Index (PI) for the project given a discount rate of 10%. (3)

Group-C

(Long Answer Type Questions) 5 x 6=30

7. Explain the advantages and disadvantages of debt financing for businesses. (5)
8. Explain capital budgeting and its importance in the long-term strategic planning process of businesses. (5)
9. Explain how the cost of capital differs between debt and equity financing. (5)
10. Describe the impact of inflation on the cost of capital. (5)
11. Evaluate degree of (i) operating leverage (ii) financial leverage and (iii) combined leverage from the following data : Sales 50,000 units @ Rs. 4 per unit Variable cost per unit 40% Fixed costs – Rs. 1,00,000 Interest charges Rs. 3668. (5)

12. Editorialize how working capital decisions impact a company's financial health. (5)

OR

Estimate how much will you owe the bank after 2 years if you borrow Rs. 20,000 from a bank at an annual compound interest rate of 8%. (5)

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