

# **Financial Management and Corporate Finance**

## **Important Question Payback Period**

**By**

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**MBA/MBA (TM)**  
**(SEM-II) THEORY EXAMINATION, 2018-19**  
**FINANCIAL MANAGEMENT AND CORPORATE FINANCE**

*Time: 3 Hours**Total Marks: 100***Note:** 1. Attempt all Sections. If require any missing data; then choose suitably.**SECTION A**

- |           |  |                    |    |
|-----------|--|--------------------|----|
| <b>1.</b> | <b>Attempt <i>all</i> questions in brief.</b>  | <b>2 x 10 = 20</b> |    |
|           |  | Marks              | CO |
| a.        | What is corporate financial management?  | 2                  | 1  |
| b.        | What is time value of money?   | 2                  | 1  |
| c.        | What is profitability index?   | 2                  | 1  |
| d.        | A project requires an outlay of Rs. 1, 00,000 and yields annual cash inflow of Rs. 25,000 for 7 years. Calculate the payback period for the given project? | 2                  | 2  |

1. Identify the initial investment: Rs. 1,00,000.
2. Determine the annual cash inflow: Rs. 25,000.
3. Divide the initial investment by the annual cash inflow to find the payback period.

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Annual Cash Inflow}}$$

$$\text{Payback Period} = \frac{1,00,000}{25,000} = 4 \text{ years}$$

Therefore, the payback period for the project is 4 years.

**Question 1:** A company invests Rs. 2,00,000 in a project that is expected to generate annual cash inflows of Rs. 40,000 for 10 years. Calculate the payback period for the project.

**Question 2:** An initial investment of Rs. 1,50,000 in a new product line is expected to produce the following annual cash inflows:

Year 1: Rs. 30,000

Year 2: Rs. 40,000

Year 3: Rs. 50,000

Year 4: Rs. 60,000

Year 5: Rs. 70,000

Determine the payback period for this investment.

**Question 3:** A project requires an initial outlay of Rs. 3,00,000 and promises to generate annual cash inflows of Rs. 75,000 for 6 years. Calculate the payback period and determine if the project is feasible if the company requires a payback period of no more than 5 years.