



B.Com. (Semester – V) (New Course) Examination, October/November 2017
BUSINESS MANAGEMENT (Major – II)
Financial Management – I

Duration : 2 Hours

Total Marks : 80

- Instructions :** 1) Question No. 1 is compulsory.
2) Answer **any three** questions from Q. 2 to Q. 6.
3) Figures to the **right** indicate **full marks**.

1. Write short notes on **any four** : (4×5=20)

- Profit Maximisation
- Cost of retained earnings
- Internal Rate of Return
- Types of Leasing
- Financial Leverage
- Role of Financial Manager.

2. A company has the following capital structure :

- a) Find out weighted average cost of capital using Book value weights. 5

Securities	Book value (₹)	After tax cost
Equity	5,00,000	13%
Retained earnings	2,00,000	8%
Preference capital	2,00,000	14%
Debentures	4,00,000	5%
	13,00,000	

- b) A company's current earnings are ₹ 1,25,000 to be distributed among 8000 shares. The market price of each share is ₹ 150 and the growth rate of dividend is estimated at 9%. Compute the cost of equity capital. 5



- c) A company issued ₹ 100 lakhs 12% redeemable debt (redeemable at lump sum) calculate the cost of debt if each Debenture is of ₹ 100 redeemable at par after 5 years, if debentures are issued at par with 5% floatation cost. Assume Tax rate at 40%. 5
- d) Write a note on distinctive features of Foreign Exchange Market. 5
3. a) The Balance sheet of A Ltd. on 31-3-2017 is as follows : 15

Balance Sheet

Liabilities	₹	Assets	₹
Equity Capital (Rs. 10 per share)	6,00,000	Net Fixed Assets	15,00,000
10% Debentures	8,00,000	Current Assets	5,00,000
Retained Earnings	2,00,000		
Current Liabilities	4,00,000		
	20,00,000		20,00,000

The company's total Assets turnover ratio is 3. Its fixed operating cost is ₹ 10,00,000 and variable cost ratio is 40%. The income tax rate is 50%

- i) Calculate for the company all the 3 types of Leverages.
- ii) Calculate the amount of EPs.
- b) Profitability index as a technique of capital budgeting. 5
4. a) The company is considering an investment proposed to install a new machine. The project will cost ₹ 5,00,000 and will have a life of 5 years and no salvage value. The company's tax rate is 50%. The firm uses straight line method of depreciation. The estimated net income after depreciation and tax from the proposed investment proposal are as follows : 15

Years Net income after Depreciation and tax

Years	₹
1	-
2	5,000
3	20,000
4	25,000
5	75,000



Calculate the following :

- 1) Pay back period.
- 2) Average rate of return
- 3) Net present value at 10% discount rate.

Year	1	2	3	4	5
P/V factor @ 10%	0.909	0.826	0.751	0.683	0.621

- b) Write a note on weighted average cost of capital. 5
- 5. a) Write short notes on : 10
 - i) Fixed Vs floating exchange rate
 - ii) Operating leverage.
- b) Write a note on merits and demerits of leasing from lessee's point of view. 10
- 6. a) Write a note on : 10
 - i) Traditional methods of capital budgeting
 - ii) Cost of equity.
- b) Define capital budgeting. Explain the process of capital budget. 10

	Before tax cost	After tax cost
Debt	10%	7%
Equity	15%	15%
Weighted average cost of capital		11.5%

25,000 to be distributed among 3000 shares of market price ₹ 10 and the growth rate of equity capital