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)**

a) Profit Maximisation

b) Cost of retained earnings

c) Internal Rate of Return

d) Types of Leasing

e) Financial Leverage

f) 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	6,00,000	Net Fixed Assets	15,00,000
(Rs. 10 per share)		Current Assets	5,00,000
10% Debentures	8,00,000		
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**
	₹
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**
