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T.Y.B.Com Semester VI (CBCS) Ordinance
EXAMINATION MAY - 2023
Business Management Major V - Financial Management II

[Time:2 Hours] **[Max. Marks:80]**

Instructions: i) Question No. 1 is compulsory.
ii) Answer any 3 questions from Q. No. 2 to Q. No. 6.
iii) Figures to the right indicate full marks.
iv) Give working notes wherever necessary.

Q1 Write short notes on any four. **(4x5=20)**

a) Net Income Approach to capital structure.

b) Importance of cost of capital.

c) Profitability Index Method.

d) M.M. model of irrelevance.

e) Project classification.

f) Implicit cost and explicit cost.

Q2 a) A company issued Rs. 100 lakhs 12% redeemable debt (redeemable at lump sum). Calculate the cost of debt if each debenture is of Rs. 100 redeemable at par after 5 years and the debentures are issued at par with 5% floatation cost. Assume Tax rate at 40%. **5**

b) ABC company has earnings available to equity shareholders Rs. 5,00,000. It has equity capital amounting to Rs. 50,00,000 having a face value of Rs. 100 each. Compute cost of equity capital. **5**

c) XYZ Ltd. has obtained capital from the following sources. You are required to calculate the weighted average cost of capital. **5**

Sources	**Book value (R.s)**	**Cost of capital (%)**
Debentures	4,00,000	6
Preference share capita	11,00,000	8
Equity share capital	6,00,000	15
Retained earnings	2,00,000	11

d) Write a short note on; Forms of dividend **5**

Q3 a) A company is considering an investment proposed to install a new machine. The project will cost Rs. 2,00,000 and will have a life of 5 years and no salvage value. The firm uses straight line method of depreciation. The estimated cash inflows (CFAT) from the proposed investment proposal are as follows: 15

Years	1	2	3	4	5
CFAT	20,000	60,000	80,000	1,20000	80,000

Calculate the following:

1) Pay back period.

2) Average rate of return.

3) Net present value at 10% discount rate.

Discount factor at 10% for first five years are as follows:

Year	1	2	3	4	5
10% Discount factor	0.91	0.83	0.75	0.68	0.62

b) Write a short note on "Capital Structure" 5

Q4 A) Following is the Balance sheet of ZED Ltd. as on 31St December 2019. 15

Balance Sheet

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity share capital (Rs.100/-per share)	4,50,000	Net Fixed Assets	7,00,000
12%Debentures	3,00,000	Current Assets	5,00,000
Retained Earnings	2,80,000		
Current liabilities	1,70,000		
	12,00,000		**12,00,000**

The company's total asset turnover ratio is 4. Fixed operating costs are Rs. 8,00,000 and its variable operating ratio is 40%. Income tax rate is 35%. Calculate the following.

i) EPS

ii) Operating Leverage

iii) Financial Leverage

iv) Combined Leverage.

b) Write a short note on Financial Leverage. 5

Q5 a) What is meant by capital budgeting? Discuss the steps involved in the capital budgeting process. **10**

b) Write short notes on: **10**

i) Walter's model of dividends.

ii) Cost of retained earnings.

Q6 a) Discuss the factors determining the dividend policy of a firm. **10**

b) What is cost of equity? Explain the various approaches for computing cost of equity capital. **10**