



B.Com. (Semester – V) (New Course) Examination, April 2017
BUSINESS MANAGEMENT – Major – II
Financial Management

Duration : 2 Hours

Total Marks : 80

Instructions : 1) Ques. No. 1 is **compulsory**.2) Answer **any 3** 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) Wealth maximisation.
- b) Cost of equity capital.
- c) Optimum capital structure.
- d) Leveraged lease.
- e) International financial management.
- f) Internal rate of return method.

2. a) The following is the capital structure of GSK Ltd. :

Sources	Amount	After tax cost of capital
Equity share capital (1,00,000 shares of Rs. 10 each)	10,00,000	11%
Preference share capital (25,000 shares of Rs. 10 each)	2,50,000	8%
9% Debentures	7,50,000	4.5%

Presently the debentures are being traded at 94%, Preference shares at par and equity shares at Rs. 13 per share.

Find out weighted average cost of capital based on :

(1) Book value weights and (2) Market value weights.

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- b) XYZ Ltd. has Equity share capital of Rs. 1,00,000 made of 1,000 shares of Rs. 100 each. The company decides to raise an additional capital of Rs. 2,50,000 through issue of equity shares and is expected to pay 10% per share as a floatation cost. The shares are issued at a discount of 10%. The company is interested to pay 8% as dividend. Calculate cost of equity. **5**
- c) What do you mean by profit maximisation ? **5**

3. a) The financial manager of a company has to advise the Board of Directors on choosing between two competing project proposals which require on equal investment of Rs. 10,00,000 and are expected to generate cash flows as under :

Year	Project I	Project II
1	4,80,000	2,00,000
2	3,20,000	2,40,000
3	2,00,000	3,60,000
4	nil	4,80,000
5	2,40,000	1,60,000
6	1,20,000	80,000

Which project proposal should be recommended and why ? Using

- 1) Pay back period method
- 2) Net present value method.

The company's cost of capital is 10%. The present value of Re. 1 for 6 years at 10% are given below :

Year	P.V. @ 10%
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	0.564

- b) Write a note on composite cost and specific cost. **15**

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4. a) The following is the summary of Balance sheet of Venson Ltd. as on 31st March 2015.

Liabilities	Amount	Assets	Amount
Equity share capital (Rs. 10 per share)	1,80,000	Fixed assets	4,50,000
10% Debentures	2,40,000	Current assets	1,50,000
Retained earnings	60,000		
Current liabilities	1,20,000		
	6,00,000		6,00,000

The company's total asset turnover ratio is 2.5 times. The fixed operating costs are Rs. 2,00,000. Variable cost ratio is 40%. Income tax rate is 50%. Calculate all the types of leverages.

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- b) Explain in brief the role and responsibilities of financial manager. 5
5. a) Define capital budgeting. Explain the process and basis of classification of capital budgeting projects. 10
- b) Write note on :
- 1) Cost of preference share capital.
- 2) Financial leverage. 10
6. a) Write note on :
- 1) Profitability index method.
- 2) Pay back period method. 10
- b) Define lease financing. Explain the different types of leasing. 10
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