



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

Duration : 2 Hours

Total Marks : 80

- Instructions :** 1) Question 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) : (5×4=20)

- a) Sale and lease back.
- b) Money market and Capital market.
- c) Explicit cost and implicit cost.
- d) Venture capital.
- e) Components of Indian financial system.
- f) Payback method of capital budgeting.

2. a) From the following capital structure of ABC Ltd., you are required to calculate the weighted average cost of capital using

- 1) Book value weights
- 2) Market value weights.

Source of Capital	Book value Rs.	Market value Rs.	After tax Cost of Capital	
Debentures	30,00,000	30,00,000	4.77%	
Preference share	20,00,000	20,00,000	10.33%	
Equity share	40,00,000	70,00,000	14.59%	
Retained Earnings	10,00,000	—	14%	10

b) The equity of MKZ Ltd. are traded in the market at Rs. 90 each. The current year dividend per share is Rs. 18. The growth expected in dividend is 6%.

Calculate cost of equity capital. 5

c). What is meant by cost of preference capital ? 5



3. a) Hari Ltd. is considering the purchase of a new machinery out of two alternatives available to them. ABC and XYZ each costing Rs. 2,00,000. Cash inflows are expected to be as follows.

Year	ABC (Rs.)	XYZ (Rs.)
1	20,000	60,000
2	60,000	80,000
3	80,000	1,00,000
4	1,20,000	60,000
5	80,000	40,000

Hari Ltd. has a target of return on capital of 10%. On the basis of NPV, you are required to compare the profitability of the machine and state which alternative is profitable. Also compute the payback period and give your conclusion.

Discount factor at 10% for 'n' no. of years.

Year	1	2	3	4	5	
<b>10% Discount factor</b>	0.91	0.83	0.75	0.68	0.62	<b>15</b>

- b) What do you mean by Rights Issue ? **5**

4. a) You are provided the following information in respect of three companies. The corporate tax is 35%.

	Peace Ltd.	Happy Ltd.	Lucky Ltd.
Quantity in Nos.	60000	45000	90000
Selling price (p.u) Rs.	200	250	160
Variable cost (p.u) Rs.	140	195	120
Fixed cost Rs. in lacs	18	12	20
Debentures Rs. in lacs	60	50	45
Debenture interest rate (%)	12	16	14
Equity shares of Rs. 10 in nos.	14,000	15,000	15,500

You are requested to compute :

- |         |                         |           |
|---------|-------------------------|-----------|
| i) EBIT | iii) Operating leverage |           |
| ii) EPS | iv) Financial leverage. | <b>15</b> |

- b) What do you mean by preferential allotment ? **5**

5. a) What are the stages of the capital budgeting process ? **10**

- b) "The wealth maximisation objective provides an operationally appropriate decision criterion" – Comment. **10**

6. a) Discuss the different types of leases. **10**

- b) Discuss the different types of debentures. **10**