B.Com. (Semester – V) Examination, April/May 2019
Business Management – Major 2 : 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** : **(4×5=20)**
   a) Profit maximisation
   b) Responsibilities of a financial manager
   c) Cost of capital
   d) Internal rate of return
   e) Operating leverage
   f) Financial lease.

2. a) Following information is available with regard to Star Ltd.

Particulars	**Book Value**	**After Tax Cost of**
Equity share capital	3,00,000	11%
Retained earnings	2,00,000	10%
Preference share capital	2,00,000	13%
Debentures	3,00,000	7%

You are required to calculate the weighted average cost of capital by using book value weights. **5**

b) Twenty years 12.5% debentures of a firm are sold at a rate of Rs. 75/- per debenture. The face value of each debenture is Rs. 100/- and the tax rate is 50%. You are required to calculate after tax cost of debt. **5**

c) A company's current earnings are Rs. 1,25,000 to be distributed among 8,000 shares. The market price of each share is Rs. 150/- and the growth rate of dividend is estimated at 9%. Compute cost of equity capital. **5**

d) Write a short note on 'Optimum Capital Structure'. **5**

3. a) Good Luck Co. is considering the purchase of a machine. Two machines A and B are available, each costing Rs. 5,00,000 with an estimated life of 5 years. In comparing the profitability of the machines, a discounted rate of 10% is to be used. The earnings after taxation are as follows :

Year	Machine A	Machine B
1	1,50,000	50,000
2	2,00,000	1,50,000
3	2,50,000	2,00,000
4	1,50,000	3,00,000
5	1,00,000	1,70,000

Indicate which of the machine would be profitable using the pay back period method and NPV method. The discounted value of Re.1 for 5 years are given belows :

Year	1	2	3	4	5
PV @ 10%	0.909	0.826	0.751	0.683	0.620

15

b) State any four features of foreign exchange market. 5

4. a) The following data are available for two firms A and B.

	Firm A	Firm B
1) Selling price per unit (Rs.)	30	15
2) Variable cost per unit (Rs.)	25	10
3) Units sold per year	40,000	20,000
4) Fixed cost per year (Rs.)	60,000	30,000
5) Interest (Rs.)	40,000	15,000
6) Preference dividend (Rs.)	5,000	10,000
7) Tax rate %	40	40
8) Number of equity shares	5,000	5,000

For each of the above firms calculate :

i) EPS

ii) Operating leverage

iii) Financial leverage

iv) Combined leverage. 15

b) Write a short note on "Cost of Preference Share Capital". 5

5. a) Explain the different kinds of Capital budgeting decisions. 10

b) Discuss the advantages and limitations of leasing to the lessor. 10

6. a) Explain the various approaches for computing the cost of equity capital. 10

b) Write short notes on :

1) International Financial Management

2) Average Rate of Return. 10
