B.Com. (Semester – V) Examination, October 2015
BUSINESS MANAGEMENT (Major – II)
Financial Management – I (Old Course)

Duration : 2 Hours | Total Marks : 80

Instructions : *1) Question No.* ***1*** *is* ***compulsory.***
2) Answer ***any 3*** *questions from Q. No.* ***2*** *to question No.* ***6.***
3) Figures to the ***right*** *indicate* ***full*** *marks.*

1. Write short notes on **any four** : **(4×5=20)**
   a) Responsibilities of a financial manager
   b) Cost of preference capital
   c) Preferential allotment
   d) Disadvantages of leasing
   e) Average or accounting rate of return
   f) Secured and unsecured debentures.

2. a) Star Ltd. has obtained capital from the following sources. You are required to calculate weighted average cost of capital using : **10**
   i) Book value weights
   ii) Market value weights.

Sources	**Book Value**	**Market value**	**Cost of capital (%)**
Debentures	4,00,000	3,80,000	5
Preference share capital	1,00,000	1,10,000	8
Equity share capital	6,00,000	9,00,000	13
Retained earnings	2,00,000	3,00,000	9

   b) The current market price of equity shares is Rs. 180 and the current dividend per share is Rs. 13.5. The shareholders have to incur 2% of the net dividends received by them as brokerage cost for making new investments and they fall in 40% tax bracket. Calculate the cost of retained earnings. **5**

   c) Write a short note on "private placement". **5**

3. a) Shine Ltd. is considering the purchase of a new machinery out of two alternatives available to them. Machine A and Machine B each costing Rs. 2,00,000. Cash inflows are expected to be as follows : 15

Year	Machine A	Machine B
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

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

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

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

b) Write a note on "Venture Capital". 5

4. a) Following is the Balance Sheet of ABC Ltd. as on 31st December 2014. 15

Balance Sheet

Liabilities	**Amount**	**Assets**	**Amount**
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) Discuss the significance of cost of capital. **5**

5. a) "The wealth maximisation objective provides on operationally appropriate decision criterion" – Comment. **10**

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

6. a) Define capital budgeting. Discuss the process of capital budgeting. **10**

b) Explain in brief the various debt instruments issued by companies for raising funds. **10**
