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

Duration : 2 Hours   Total Marks : 80

Instructions : *1) Q. 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) Responsibilities of finance manager.
   b) Composite cost of capital.
   c) Optimum capital structure.
   d) Advantages of leasing.
   e) Average rate of return method.
   f) International financial management.

2. a) A company has earnings available to equity shareholders Rs. 5,00,000. It has capital Rs. 50,00,000 face value of Rs. 100 each. Compute cost of equity (assuming 100% dividend payout ratio). 5

   b) Yash Ltd. issues 50,000 10% preference shares of Rs. 100 each at par, redeemable after 10 years at a premium of 5%. The cost of issue is Rs. 2 per share. Calculate cost of preference share capital. 5

   c) Following information is available with regard to the capital structure of Raj builders Ltd.

Sources of funds	**Book value**	**After tax cost of capital**
Equity share capital	3,50,000	12%
Retained earnings	2,00,000	10%
Preference share capital	1,50,000	13%
Debentures	3,00,000	9%

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

   d) Write note on leverage analysis. 5

P.T.O.

3. a) G and G Ltd. is considering the purchase of a new machine. Two alternative machines, Machine Excellent having cost of Rs. 5,00,000 and Machine supreme having cost of Rs. 5,80,000 have been suggested. The company cost of capital is 15%. The earnings after tax and before depreciation are expected to be as follows.

Year	Machine Excellent	Machine Supreme
1	Rs. 1,00,000	Rs. 2,00,000
2	RS. 1,50,000	Rs. 2,10,000
3	Rs. 1,80,000	Rs. 1,80,000
4	Rs. 2,00,000	Rs. 1,70,000
5	Rs. 1,70,000	Rs. 40,000
Salvage value at the end of 5^{th} year	Rs. 50,000	Rs. 60,000

Discounted value of Re. 1 @ 15% for 5 years is given below :

Year	1	2	3	4	5
P.V. Factor @ 15%	0.87	0.76	0.66	0.57	0.50

Evaluate the machines under

1) Pay back period method
2) Net present value method and advice which of the machine is to be selected. **15**

b) Explain in brief features of foreign exchange market. **5**

4. a) Gango Ltd. provides the following details of the assets and liabilities as on 31^{st} March 2014.

Particulars		**Amount**
Liabilities		
Equity capital (Rs. 10 per share)		16,00,000
10% debentures		12,00,000
Retained earnings		7,00,000
Current liabilities		3,00,000
	Total	**38,00,000**
Assets		
Net fixed assets		20,00,000
Current assets		18,00,000
	Total	**38,00,000**

Income statement for the year ending 31st March 2014.

Sales	6,80,000
Less : operating expenses	
(including dep Rs. 1,20,000)	2,40,000
EBIT	4,40,000
Less : interest	1,20,000
	3,20,000
Less : taxes 50%	1,60,000
Net earnings	1,60,000

You are required to calculate DOL and DCL at the current level of expenses, if all expenses other than depreciation are variable costs.

What will be EPS if sales increase by 20% and decrease by 20%. **15**

b) Explain in brief wealth maximisation objective. **5**

5\. a) Define capital budgeting. Explain the process and basis of classification of capital budgeting projects. **10**

b) Write note on :

i) Cost of retained earnings.

ii) Financial leverage. **10**

6\. a) Define lease financing. Explain in detail financial evaluation of lease from lessee's and lessors point of view. **10**

b) Explain in brief :

i) Cost of debt

ii) Profitability index method. **10**