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**T.Y.B.COM. Semester - V (Repeat) / One Time Opportunity
EXAMINATION OCTOBER 2019
Business Management Major 2 : Financial Management**

[Duration : Two Hours]

[Max. Marks :80]

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

Q.1 Write short notes on any **FOUR**: (4X5=20)

- a) Financial Management.
- b) Fixed and floating exchange rate.
- c) Cost of retained earnings.
- d) Importance of capital budgeting decisions.
- e) Lease V/s Buying
- f) Historical cost and future cost.

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

- i) Book value weights
- ii) Market value weights

SOURCES	BOOK VALUE	MARKET VALUE	COST OF CAPITAL
Equity Share Capital	45,000	90,000	14%
Retained share earning	15,000	-	13%
Preference Share capital	10,000	10,000	10%
Debentures	30,000	30,000	5%

(10 marks)

(b) A company issues 10,000 8% preference shares of Rs.100 each. The cost of issue is Rs.2 per share. Calculate the cost of irredeemable preference shares issued:

- i) at p.a and
- ii) at 5% premium

(5 marks)

(c) Write a short note on “combined leverage”.

(5 marks)

Q.3 (a) XYZ is proposing to expand its production. It can go in either for automatic machine costing Rs.2,00,000 with an estimated life of 5 years or an ordinary machine costing Rs.72,000 having an estimated life of 8 years. Income tax rate is 40%. The annual sales and costs are estimated as follows.

DETAILS	AUTOMATIC MACHINE	ORDINARY MACHINE
Sales (Rs)	1,40,000	1,40,000
Costs:		
Materials	60,000	60,000
Labour	10,000	40,000
Variable Overheads	25,000	20,000

Find out the most profitable investment based on

- i) Payback period method
- ii) ARR

(15 marks)

(b) Write a short note on "Internal Rate of Return".

(5 marks)

- Q.4** (a) ABC Ltd. provides the following details of the assets and Liabilities as on 31st March 2017

Particulars	Amount
<u>Liabilities-</u>	
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
<u>Assets-</u>	
Net Fixed assets	20,00,000
Current Assets.	18,00,000
	38,00,000

Income statement for the year ending 31st March 2017.

Sales	6,80,000
Less: operating expenses (including dep of 1,20,000)	2,40,000
	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 Degree of Operating Leverage, Financial Leverage and Combined Leverage at the current level of expenses, if all expenses other than depreciation are variable costs.

What will be the EPS if sales increase by 20% and decrease by 20% **(15 marks)**

(b) Write a short note on "Optimum Capital Structure". **(5 marks)**

Q.5 (a) "Wealth maximization is considered to be an important objective of Financial management than Profit maximization". Justify your stand. **(10 marks)**

(b) Discuss the steps in capital budgeting process. **(10 marks)**

Q.6 (a) Write short notes on: **(10 marks)**

(i) Cost of debt capital.

(ii) Pay Back Period Method.

(b) Explain the different types of leases. **(10 marks)**