



## B.Com. (Semester – V) (New Course) Examination, April 2018

## 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)

- Distinctive features of foreign exchange market.
- Wealth maximisation objective.
- Implicit cost and explicit cost.
- Optimum capital structure.
- Merits of leasing from lessee's point of view.
- Discounted methods of capital budgeting.

2. a) ABC Ltd. issued 10,000 equity shares of Rs. 10 each at a premium of Rs. 2 each. The company has incurred issue expenses of Rs. 5,000. The equity shareholders expect the rate of dividend of 18% p.a. Calculate the cost of equity share capital. 5

b) PNB Ltd. has issued 30,000 irredeemable 14% debentures of Rs. 150 each. The cost of flotation of debentures is 5% of the total issued amount. The company's taxation rate is 40%. Calculate the cost of debt. 5

c) Led Ltd. has the following capital structure.

Particulars	Book values	After tax cost
Equity share capital	12,00,000	18%
Preference share capital	2,00,000	15%
14% fully secured debentures	4,00,000	7%

Calculate the company's weighted average cost of capital. 5

d) Write a note on composite and specific cost. 5

3. a) A company is considering an investment. The project will cost Rs. 5,00,000 has a life of 5 years and no salvage value. The company's tax rate is 55%. The firm uses straight line depreciation and the estimated cash flows before tax and before depreciation (CFBT) from the proposed investment are as follows :

Year	1	2	3	4	5
CFBT	10,000	11,000	14,000	15,000	25,000
D.F. @ 10%	0.909	0.826	0.751	0.683	0.621

Compute the following :

- Pay back period
- Average rate of return
- Net present value @ 10% discount rate.

b) Write a short note on average rate of return method. 15

5P.T.O.



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

	A	B
i) Units sold per year	25,000	30,000
ii) Unit selling price (Rs.)	30	35
iii) Unit variable cost (Rs.)	20	25
iv) Fixed cost per year (Rs.)	50,000	60,000
v) Interest (Rs.)	10,000	20,000
vi) Preference dividend (Rs.)	5,000	10,000
vii) No. of equity shares	10,000	12,000
viii) Corporate tax rate	40%	50%

For each of the above firms calculate :

- i) EPS
- ii) Operating leverage
- iii) Financial leverage
- iv) Combined leverage. 15
- b) Discuss the significance of cost of capital. 5
5. a) Explain the various approaches for computing cost of equity capital. 10
- b) Write short notes on :
  - i) Cost of retained earnings
  - ii) Financial leverage. 10
6. a) Explain the different types of leases. 10
- b) Write short notes on :
  - i) International financial management.
  - ii) Role and responsibilities of the finance manager. 10