



B.Com. (Semester – V) Examination, October/November 2018
BUSINESS MANAGEMENT – Major 2
Financial Management – I

Duration : 2 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.

1. Write short notes on any four. (4×5=20)

- a) Objective of Wealth Maximisation.
- b) Importance of cost of capital.
- c) Profitability Index Method.
- d) Lease financing.
- e) Project classification.
- f) Implicit cost and explicit cost.

2. a) ABC Ltd. has obtained capital from the following sources. You are required to calculate weighted average cost of capital using

- a) Book value weights
- b) Market value weights. 10

Sources	Book Value	Market Value	Cost of Capital (%)
Debentures	4,00,000	4,00,000	5
Preference share capital	1,00,000	1,00,000	8
Equity share capital	6,00,000	9,00,000	13
Retained earnings	2,00,000	—	9

b) A company has earnings available to equity shareholders Rs. 5,00,000. It has equity capital Rs. 50,00,000 having a face value of Rs. 100 each. Compute cost of equity capital. 5

c) Write a short note on “Financial Management”. 5



3. a) Sun Shine 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.

15

Cash inflows are expected to be as follows :

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 pay back period and give your conclusions.

Discount factor at 10% for 'n' no of year

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

- b) Write a short note on "Capital Structure".

5

4. a) Following is the Balance Sheet of XYZ Ltd. as on 31st December 2017.

Balance Sheet

Liabilities	(Rs.) Amount	Assets	(Rs.) 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 15
 - ii) Operating Leverage
 - iii) Financial Leverage
 - iv) Combined Leverage.
- b) Discuss the four approaches adopted in the computation of cost of equity capital. 5
5. a) What is meant by Capital Budgeting ? Discuss the steps involved in capital budgeting process. 10
- b) Write short notes on :
- 1) Financial Leverage
 - 2) Cost of retained earnings. 10
6. a) Explain the advantages and disadvantages of leasing to the lessor. 10
- b) Discuss the role and responsibilities of a financial manager. 10

i) Implicit cost and explicit cost _____

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c) Write a short note on "Financial Management". 5