



**B.Com. (Semester – V) (New Course) Examination,
October/November 2016
BUSINESS MANAGEMENT – Major – II
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** :

(4x5=20)

- a) Wealth v/s Profit Maximisation
- b) Cost of retained earnings
- c) Average Rate of Return Method
- d) Evaluation of leasing from lessee's point of view
- e) Trading on equity
- f) Role and responsibilities of Financial Manager

2. a) A company has the following capital structure. Find out weighted average cost of capital using book value weights.

Securities	Book value	After tax cost of capital
Equity share capital	5,00,000	13%
Retained earnings	2,00,000	8%
Preference share capital	2,00,000	5%
Debentures	4,00,000	5%

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b) A firm issue debentures of Rs. 1,00,000 and realises Rs. 98,000 after allowing commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10th year at par.

Calculate cost of debt.

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P.T.O.



- c) From the following information cost of equity according to 1) Dividend price plus growth approach and 2) Earning price approach.
 - a) Current market price of an equity share Rs. 100.
 - b) Expected earnings per share Rs. 100.
 - c) Dividend Payout Ratio = 80%.
 - d) Growth Rate 6%. 5
- d) Explain the features of foreign exchange market. 5
- 3. a) A company is considering an investment proposal to instal a new machine. The project will cost Rs. 5,00,000 and will have life of 5 years and no salvage value. Tax rate is 50%, the company follows straight line depreciation. The company's cost of capital is 10%.

The net earnings before depreciation and tax is as follow, also the present value of Re. 1 for 5 years at 10% are given below.

Year	Earnings before depreciation and tax (Rs.)	P.V. at 10%
1	1,00,000	0.909
2	1,10,000	0.826
3	1,40,000	0.751
4	1,50,000	0.683
5	2,50,000	0.621

Evaluate the project using.

- 1) Pay back period method
- 2) Average rate of return method
- 3) NPV at 10%. 15
- b) Explain the importance of cost of capital. 5
- 4. a) From the following information available for two companies. Calculate for each of the company the following :
 - 1) EBIT
 - 2) EPS
 - 3) Operating leverage
 - 4) Financial leverage
 - 5) Combined leverage.



Particulars	ABC Ltd.	XYZ Ltd.	
Quantity in units	14,000	16,000	
Selling price per unit	Rs. 25	Rs. 30	
Variable cost per unit	Rs. 10	Rs. 12	
Fixed costs (Rs.)	50,000	75,000	
Interest on debentures (Rs.)	15,000	20,000	
Dividend on preference share capital (Rs.)	10,000	12,000	
No. of equity shares	8,000	10,000	
Corporate tax rate	30%	30%	15

- b) Write a note on Profitability Index. 5
- 5. a) What is meant by lease financing ? Explain the different types of leases. 10
- b) Write short note on :
 - 1) International financial management
 - 2) Approaches of cost of equity capital. 10
- 6. a) Define capital budgeting. Explain its importance and kinds of capital budgeting decisions. 10
- b) Write note on :
 - 1) Combined leverage
 - 2) Internal Rate of Return Method. 10

Equity share capital	5,00,000	13%
Retained earnings	2,00,000	2%
Preference share capital	2,00,000	5%
Debentures	4,00,000	5%

c) A firm issues debentures of Rs. 1,00,000 and realizes Rs. 95,000 after allowing commission to brokers. Debentures carry interest rate of 10%. The debentures are due for maturity at the end of 10th year at par.

Calculate the cost of debt.