PAA – 10

B.Com. (Semester – V) Examination, April 2016
Business Management (Major – II) (Old Course)
FINANCIAL MANAGEMENT – I

Duration : 2 Hours   Total Marks : 80

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

1. Write short notes on **any four** : **(4×5=20)**
   a) Regulatory infrastructure of financial system.
   b) Explicit and implicit cost.
   c) Internal rate of return.
   d) Venture capital.
   e) Leasing V/s Buying.
   f) Project classification.

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

Sources of funds	Amount (Rs.)	Cost of capital
Equity share capital	4,50,000	14%
Retained earnings	1,50,000	13%
Preference share capital	1,00,000	10%
Debentures	3,00,000	5%

5

   b) Sunshine Company's equity share is currently selling at Rs. 150. It is paying a dividend of Rs. 15 per share. The dividends are expected to grow at 15% p.a. after 1 year. Income tax rate is 40%. Brokerage is 2%. Calculate cost of retained earnings. 5

   c) A company issues 7% 1,000 preference shares at Rs. 100 each at a premium of 10% redeemable after 5 years at par. Calculate cost of preference capital. 5

   d) What do you mean by "rights issue" ? 5

P.T.O.

3. a) Goodluck Company is considering the purchase of a machine. Two machines A and B are available, the details of which are given below. You are requested to advise the company as to which machine is more profitable under

   i) Payback period method

   ii) Average rate of return method.

   The income tax rate is 50%.

Particulars	Machine A	Machine B
Cost	Rs. 2,50,000	Rs. 3,00,000
Life	6 years	6 years
Scrap value	Rs. 10,000	Nil
Profits (before depreciation and taxes)		
1^{st} year	1,00,000	80,000
2^{nd} year	1,20,000	1,40,000
3^{rd} year	1,40,000	1,60,000
4^{th} year	80,000	80,000
5^{th} year	1,00,000	80,000
6^{th} year	60,000	60,000

15

b) What are the responsibilities of a financial manager ? 5

4. a) The capital structure of Star Products Ltd. consists of an ordinary share capital of Rs. 10,00,000 (shares of Rs. 100/- par value) and Rs. 10,00,000 of 10% debentures.

   The unit sales increased by 20% from 1,00,000 units to 1,20,000 units. The selling price is Rs. 10 per unit, variable cost amounts to Rs. 6 per unit and fixed expenses amount to Rs. 2,00,000. The income tax rate is assumed to be 35%. You are required to calculate :

   1) Operating leverage at 1,00,000 units and 1,20,000 units.

   2) Financial leverage at 1,00,000 units and 1,20,000 units.

   3) Percentage increase in EPS. 15

   b) What do you mean by "Initial Public Offer" ? 5

5. a) Explain in brief the different components of the Indian Financial System. 10

   b) Discuss the different types of leases. 10

6. a) What do you mean by weighted average cost of capital ? What are the steps involved in calculating the firm's weighted average cost of capital ? 10

   b) Discuss the different types of debentures. 10

———————