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T.Y.B.Com Semester VI (CBCS) Ordinance
EXAMINATION MAY - 2023
Business Management Major V - Financial Management II

[Time:2 Hours]

[Max. Marks:80]

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

Q1 Write short notes on any four.**(4x5=20)**

- a) Net Income Approach to capital structure.
- b) Importance of cost of capital.
- c) Profitability Index Method.
- d) M.M. model of irrelevance.
- e) Project classification.
- f) Implicit cost and explicit cost.

Q2 a) A company issued Rs. 100 lakhs 12% redeemable debt (redeemable at lump sum). Calculate the cost of debt if each debenture is of Rs. 100 redeemable at par after 5 years and the debentures are issued at par with 5% floatation cost. Assume Tax rate at 40%. **5**

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

c) XYZ Ltd. has obtained capital from the following sources. You are required to calculate the weighted average cost of capital. **5**

Sources	Book value (R.s)	Cost of capital (%)
Debentures	4,00,000	6
Preference share capita	11,00,000	8
Equity share capital	6,00,000	15
Retained earnings	2,00,000	11

d) Write a short note on; Forms of dividend **5**

- Q3** a) A company is considering an investment proposed to install a new machine. The project will cost Rs. 2,00,000 and will have a life of 5 years and no salvage value. The firm uses straight line method of depreciation. The estimated cash inflows (CFAT) from the proposed investment proposal are as follows: **15**

Years	1	2	3	4	5
CFAT	20,000	60,000	80,000	1,20,000	80,000

Calculate the following:

- 1) Pay back period.
- 2) Average rate of return.
- 3) Net present value at 10% discount rate.

Discount factor at 10% for first five years are as follows:

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**

- Q4** A) Following is the Balance sheet of ZED Ltd. as on 31st December 2019. **15**

Balance Sheet

<u>Liabilities</u>	<u>Amount (Rs.)</u>	<u>Assets Amount (Rs.)</u>
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	<u>1,70,000</u>	
	<u>12,00,000</u>	<u>12,00,000</u>

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
- ii) Operating Leverage
- iii) Financial Leverage
- iv) Combined Leverage.

- b) Write a short note on Financial Leverage. **5**

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- Q5** a) What is meant by capital budgeting? Discuss the steps involved in the capital budgeting process. 10
- b) Write short notes on: 10
- i) Walter's model of dividends.
- ii) Cost of retained earnings.
- Q6** a) Discuss the factors determining the dividend policy of a firm. 10
- b) What is cost of equity? Explain the various approaches for computing cost of equity capital. 10