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

[Time: 2 Hours] **[Max. Marks:80]**

Instructions:
1. Question Q. No. 1 is compulsory.
2. Answer any 3 questions from Q. No. 2 to Q. No. 6.
3. Figures to the right indicate full marks.
4. Give working notes wherever necessary.

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

a. Gordon's model.
b. Cost of debt capital.
c. Internal rate of return
d. Net Income Approach to capital structure.
e. Features of Financial Leverage
f. Dividend payout ratio.

Q2 a. A company issues 1,000 7% preference shares of Rs.100 each at a premium of 10% redeemable after 5 years at par. Compute the cost of preference capital. **05**

b. The current market price of equity shares is Rs. 180 and the current dividend per share is Rs.13.5. The shareholders incur 2% of the net dividends received by them as brokerage cost for making new investments and they fall in the 40% tax bracket. Calculate the cost of retained earnings. **05**

c. A company has the following capital structure: **05**

Securities	Book value (Rs.)	After tax cost
Equity	6,00,000	13%
Retained earnings	2,00,000	8%
Preference capital	3,00,000	14%
Debentures	4,00,000	5%
Total	**15,00,000**	

Find the weighted average cost of capital using book value weights.

d. Write a note on "Optimum capital structure". **05**

Q3 a. The company is considering an investment proposed to install a new machine. The proposal 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	60,000	80,000	1,00,00	60,000	40,00

Calculate the following:
1) Payback period.
2) Average rate of return.
3) Net present value at 10% discount rate.

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

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

b. Write a note on explicit and implicit cost of capital. **05**

Q4 a. The Balance sheet of a company as on 31-3-2019 is as follows: **15**

Balance Sheet

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity capital (Rs. 100 per share)	6,00,000	Net Fixed assets	10,00,000
Retained earnings	80,000	Current assets	5,00,000
10% Preference capital	4,00,000		
12% Debentures	3,00,000		
Current liabilities	1,20,000		
	15,00,000		15,00,000

The company's total Assets turnover ratio is 4. Fixed operating costs are Rs. 1,00,000 and its variable operating cost ratio is 60%. The income tax rate is 40%. You are required to calculate:

i) EPS
ii) Operating leverage
iii) Financial leverage
iv) Combined leverage

b. Describe Profitability Index as a method of appraising Investments proposals. **05**

Q5 a. What is cost of equity? Enumerate the different approaches to calculate cost of equity. **10**

b. Answer the following in brief: **10**
i. List out the assumptions of MM hypothesis.
ii. Explain any five factors determining the capital structure of a firm.

Q6 a. Discuss in detail the factors determining the dividend policy of a firm. **10**
b. Define capital budgeting. Explain the process of capital budgeting. **10**