

**Choice Based Credit System V Semester B.Com.  
Examination, February/March 2023  
(2021 – 22 Batch Onwards) (New Scheme)  
FINANCIAL MANAGEMENT – I  
Group – I : Core Course : Commerce**

Time : 3 Hours

Max. Marks : 120

## SECTION – A

Answer any four :

(4×6=24)

1. Define Financial Management.
2. Explain the rationale for issue of equity shares by a company.
3. ABC Ltd. purchased a machine costing ₹ 4,00,000. Its effective life was seven years after which it would realise a scrap value of ₹ 50,000. However by that time, the new machine would cost 20% more. Assuming a compound interest rate of 6% p.a. Calculate the amount to be set aside to the Sinking fund every year.
4. The liability side of the Balance Sheet of ABC Ltd. is given below.

<b>Sources of Funds</b>	<b>Amount (Rs. in lakhs)</b>
Equity shares of ₹ 10 each	23
15% Preference shares of ₹ 100 each	11
General reserve	14
Share premium	2
12% Unsecured debentures	70
Long term loan from IDBI Ltd.	30
Current liabilities	60
Deferred expenses	2
Calculate the Debt-Equity Ratio.	



5. Calculate the Beta from the following data for the shares of Company A Ltd. and Company B Ltd.

	Arithmetic Mean	Standard Deviation	Correlation co-efficient
Market Mean	13%	3%	-
Shares of A Ltd.	15%	3.5%	0.8
Shares of B Ltd.	12%	2.5%	0.7

6. A project costing ₹ 6,00,000 yields annually a profit of ₹ 90,000 after depreciation at 12.5% p.a. but before tax at 50%. Calculate Pay Back Period.

SECTION – B

Answer any four :

(4×12=48)

7. Explain the scope of financial management under Modern Approach.
8. Write a note on functions and powers of SEBI.
9. What are the merits and demerits of Book-building process ?
10. A Ltd. presents the following details from which you are required to compute Operating Leverage, Financial Leverage and Combined Leverage.

Financial details :

	₹
Equity shares of ₹ 10 each	5,00,000
15% debentures of ₹ 100 each	10,00,000

Operational details :

- Sale price per unit ₹ 15
- Variable cost per unit ₹ 8
- Fixed cost ₹ 2,00,000
- Tax rate – 35%

Assume the output to be 1,00,000 units. What will be the leverages ?

11. The prices of two shares X and Y are given below. Using co-efficient of variation, determine which company's share has a higher risk profile.

X Ltd.	55	54	52	53	56	58	52	50	51	49
Y Ltd.	108	107	105	106	105	107	104	103	101	104

12. Vishruth Ltd. is considering two alternative projects for implementation. The forecasted cash flows are given for 5 years as below :

Year	Cash Flows	
	Project X (₹)	Project Y (₹)
1	52,000	60,000
2	68,000	63,000
3	73,000	65,000
4	65,000	59,000
5	78,000	72,000

The cost of the Project is ₹ 2,00,000. The cost of capital is assumed to be 8%. Based on NPV determine which project is acceptable ?

SECTION - C

(2x24=48)

Answer any two :

13. What is Stock Exchange ? What are the role and functions of a Stock Exchange ?
14. G. Ltd., needs ₹ 5,00,000 for construction of a new plant. The following three financial plans are feasible.
- A. The company may issue 50,000 equity shares of ₹ 10 per share.
  - B. The company may issue 25,000 equity shares of ₹ 10 per share and 2500 debentures of ₹ 100 denominations bearing 8% rate of interest.
  - C. The company may issue 25,000 equity shares of ₹ 10 per share and 2,500 preference shares of ₹ 100 per share bearing 8% rate of dividend.
- If the company's EBIT are ₹ 10,000, ₹ 20,000, ₹ 40,000, ₹ 60,000 and ₹ 1,00,000. What are the EPS under each of three financial plans ? Which alternative would you recommend and why ? Assume a corporate tax rate of 50%.



15. The return on stocks of KK Ltd. during five year period is given below.

Year	Return of KK Ltd.(%)	Return on Nifty (%)	Return on Sensex (%)
1	18	16	19
2	14	13	16
3	16	15	13
4	13	12	14
5	9	4	18

**Calculate :**

- a) Alpha and Beta of KK Ltd., by taking Nifty as Market return.
- b) Alpha and Beta taking Sensex as Market return.

16. From the following information, calculate the NPV and profitability index of the two projects and suggest which of the projects should be accepted assuming a discount factor of 10%.

	Project A	Project B
<b>Initial Investment</b>	₹ 2,00,000	₹ 3,00,000
<b>Estimated life</b>	5 years	5 years
<b>Scrap value at the end of 5<sup>th</sup> year</b>	25,000	40,000

The profits before depreciation and after tax (cash flow) are as follows :

Year	1	2	3	4	5
<b>Project A (₹)</b>	40,000	50,000	80,000	60,000	40,000
<b>Project B (₹)</b>	90,000	1,00,000	80,000	80,000	50,000

The present value at 10% discount rate is as follows :

Year	1	2	3	4	5
<b>Discount factor at 10%</b>	0.909	0.826	0.751	0.683	0.621