GOA UNIVERSITY

T.YB.Com (CBCS) (Semester- VI)
Subject Name: Business Management - Financial Management II

Paper Title: Financial Management II **Paper Code: UCOD119**
Duration: 2 Hours **Total Marks: 80**

Instructions: 1. Question 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 of Dividends.
b) Cost of retained earnings.
c) Internal rate of return.
d) Explicit cost and implicit cost.
e) Financial leverage.
f) Project classification.

Q2 (a) Calculate weighted Avg. cost of capital from the following information: **(5 marks)**

Sources	Book Value	After tax Cost of Capital
Equity share capital	10,00,000	11%
Preference share capital	2,50,000	8%
Debentures	7,50,000	5%

b) ABC Limited issued 50,000, 10% preference shares @ Rs. 100 per share, redeemable after 10 years @ a premium of 5%. The cost of the issue is Rs.2/- per share. Calculate the cost of preference share capital. **(5 marks)**

(c) The current market price of equity share is Rs 90. The dividend per year is Rs 4.50. The dividends are expected to grow at a rate of 6%. Calculate the cost of equity capital. **(5 marks)**

(d) Write a short note on debt capital. **(5 marks)**

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Q3 (a) Moon and Star ltd is considering the purchase of a machine. Two machines, Machine A and Machine B, are available. The cost of the Machine is Rs 5,00,000. You are requested to advice the company as to which machine is profitable.

The Cash inflows of Machine A and Machine B are as follows:

Machine A (Rs.)	Machine B (Rs.)
1,50,000	50,000
2,00,000	1,50,000
2,50,000	2,00,000
1,50,000	3,00,000
1,00,000	1,70,000

The PV factor @10% is as follows:

Year	1	2	3	4	5
PV@10%	0.909	0.826	0.751	0.685	0.620

Calculate Pay Back Period and Net Present Value and comment on which Machine should be selected and why? **(15 marks)**

(b) State the different forms of Dividends. **(5 marks)**

Q4. (a) The following is the Balance Sheet of ABC ltd as on 31st March 2025.

Balance sheet			
Liabilities	**(Rs.) Amount**	**Assets**	**(Rs.) Amount**
Equity Share Capital (Rs. 100 each)	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	1,70,000		
	12,00,000		12,00,000

The company's 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:

1.EPS
2.Operating Leverage
3.Financial Leverage
4.Combined leverage **(15 marks)**

b) Write a short note on 'significance of cost of capital'. **(5 marks)**

Q5. a) Discuss the importance of Capital Budgeting decisions. **(10 marks)**

b) Write short notes on **(2 x 5 = 10 marks)**
1.Optimal Capital Structure
2. Profitability Index

Q6.a) Explain the various determinants of Dividend policy. **(10 marks)**

b) Discuss the various approaches in computing the cost of equity capital. **(10 marks)**

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