Percentage of net profit on sales 20%

Average credit period allowed to customers 8 weeks

Average credit period allowed by suppliers 4 weeks

Average stock holding in terms of sales requirements 12 weeks

Allow 10% for contingencies

H Roll No. ....

BCH–202

B. COM. (H) (SECOND SEMESTER) END SEMESTER EXAMINATION, June, 2023

BUSINESS FINANCE

Time : Three Hours

Maximum Marks : 100

Note : (i) All questions are compulsory.

(ii) Answer any *two* sub-questions among (a), (b) and (c) in each main question.

(iii) Total marks in each main question are **twenty**.

(iv) Each sub-question carries 10 marks.

1. (a) Discuss financial management and its significance in modern era. Also, state the objectives of financial management. (CO1)

   (b) What is wealth maximization goal ? How is it superior to profit maximization goal ? (CO1)

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(c) Compute the cost of capital of 12% debentures issued by Vikas Ltd., face value of ₹ 100, amount of ₹ 2,00,000, in following situations. The life of debenture of 7 years. (CO1)

(i) Issued at par, redeemable at par

(ii) Issued at 10% premium

(iii) Issued at 10% discount

2. (a) Define cost of capital. How will you determine the cost of capital from different sources ? (CO2)

(b) What do you understand by working capital ? Discuss the various sources of funds. (CO2)

(c) A firm has the following capital structure and after tax costs for the different sources of funds used : (CO2)

Source of Funds	Amount (₹)	Proportion (%)	After tax cost (%)
Debt	40,00,000	20	4.50
Preference Shares	20,00,000	10	9.00
Equity Shares	60,00,000	30	11.00
Retained Earnings	80,00,000	40	10.00

Calculate cost of weighted capital by using book value method.

3. (a) Define operating and financial leverage. How can you measure degree in both with the help of example ? (CO3)

(b) Illustrate the Modigliani-Miller Approach of irrelevance concept of capital structure. Under what assumptions do the conclusion holds true. (CO3)

(c) A Babies hospital is considering to purchase a diagnostic machine costing ₹ 80,000. The projected life of the machine is 8 years and has an expected salvage value of ₹ 6,000 at the end of 8 years. The annual operating cost of the machine is ₹ 7,500. It is expected to generate revenues of ₹ 40,000 per year for eight years. Presently, the hospital is outsourcing the diagnostic work and is earning commission income of ₹ 12,000 per annum; net of taxes. (CO3)

Whether it would be profitable for the hospital to purchase the machine ? Give your recommendation under :

(i) Net Present Value method

(ii) Profitability Index method

PV factors at 10% are given below :

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683
Year 5	0.621
Year 6	0.564
Year 7	0.513
Year 8	0.467

4. (a) "Capital Budgeting is the long term planning for making and financing proposed capital outlays." Explain. What are limitations of capital budgeting ? (CO4)

(b) "The amount of fixed capital needed varies directly with the amount of fixed assets owned." What are the factors that influence estimation of fixed asset requirement of business. (CO4)

(c) Rupa Ltd. EBIT is ₹ 500,000. The company has 10%, ₹ 20 lakh debentures. The equity capitalization rate i.e. Ke is 16%.

Calculate : (CO4)

(i) Market value of equity and value of the firm

(ii) Overall cost of capital

5. (a) Why should inventory be held ? Why is inventory management important ? Explain the objectives of Inventory management. (CO5)

(b) Illustrate the CAPM approach for calculating the cost of equity ? Also explain the meaning of each variable in the capital asset pricing model (CAPM) equation. (CO5)

(c) Prepare an estimate of working capital requirement from the following information of a trading concern : (CO5)

Projected annual sales 10,000 units

Selling price ₹ 10 per unit