

SARDAR PATEL UNIVERSITY
T.Y. B.Com (EXTERNAL) EXAMINATION
FRIDAY, 4th MAY, 2018.
2.00 p.m. to 5.00 p.m.
BUSINESS FINANCE : BF-301

- 1(a) What is Financial Management? Explain the Importance of Financial management in Modern Business World. 10
- (b) What is Under-Capitalization? Narrate the causes and remedies of Under-Capitalization. 10

OR

- 1(a) What is financial Planning? Explain the factors those are affecting Financial Planning. 10
- (b) "The objective of Wealth Maximization is superior than Profit Maximization". How? Discuss. 10
- 2(a) What is Cost of capital? Explain the Significance of Cost of Capital in Financial Decision Making. 10
- (b) What is Long Term Sources of Finance? Explain The merit and demerits of Preference Shares as a Long term Source of Finance. 10

OR

- 2(a) What is Debenture? Explain the merit and demerit of Debentures as long term source of Finance. 10
- (b) The Capital Structure of IOC Co. is given as below: 10

Sources of capital	Book Value	Market Value	Cost of capital
Equity shares	30,00,000	60,00,000	18%
Preference Shares	5,00,000	4,50,000	12%
Retained Earnings	10,00,000	-----	13%
Debentures	20,00,000	17,50,000	10%

You are required to calculate weighted average cost of capital using:

1. Book Value Weights and
2. Market Value Weights.

- 3(a) Raj ltd. has the following capital structure. 10

Equity shares of Rs.10 each	Rs .40,00,000
12% Pref. shares of Rs.100 each	Rs. 20,00,000
10% Debenture of Rs.100 each	Rs. 15,00,000
Reserves	Rs. 20,00,000

The required rate of return of capital is 16%. The company needs Rs. 30,00,000 for expansion. The income tax rate is 50%

There are three alternatives available to the company to finance above Plan as given below:

1. Issue 3,00,000 shares of Rs.10 each.
2. Issue 13% Preference Shares.
3. Issue 13% Debentures.

Which alternative is the best and why ? (find EPS).

- (b) What is Capital Structure ? Discuss the basic characteristics of Optimum Capital Structure. 10

OR

- 3(a) Explain the factors affecting Capital Structure Decision. 10
 (b) What is Leverage? Distinguish between Operating Leverage and Financial Leverage. 10

- 4(a) Calculate all types of leverages for company X and Y from the following: 10

Particular	X Company	Y Company
Output (Units)	1,00,000	2,00,000
Fixed Costs (Rs.)	2,00,000	40,000
Unit Variable Cost (Rs.)	4.00	1.00
Interest Expenses (Rs.)	1,40,000	60,000
Unit selling Price (Rs.)	8.00	2.00

Also interpret the results.

- (b) What is working capital? What factors affecting the need of Working Capital? Explain. 10

OR

- 4(a) Explain the meaning of Cash and discuss the motives of holding cash in day to day Business Transactions. 10
 (b) What is Capital Budgeting? Explain the importance of it in Financial Decision Making. 10

- 5 Jay Spring Limited is considering investing in a new Project costing Rs.50,00,000 Forecasted annual incomes before Depreciation and Taxes are as below: 20

Year	Annual Income (Rs.)
1	30,00,000
2	40,00,000
3	50,00,000
4	60,00,000
5	30,00,000

Depreciation may be taken at 20% on original cost of the Project and tax rate is 50%. The discounting rate of return is 10%.

You are required to evaluate the New Project by following Methods.

1. Pay back period.
2. Accounting rate of return Method.
3. Net present value method.

OR

- 5(a) Explain how the Pay Back Period Method is helpful in Evaluating New Projects. Also narrate the Limitations of this method of evaluation. 10
 (b) Write short notes on :
 1. Functions of SEBI 5
 2. Importance of stock exchange. 5