5. A company has sales of ₹ 2 lakh. The variable costs are 40% of sales, while the fixed operating costs amount to ₹ 60,000. The interest burden on debt is ₹ 20,000. You are required to calculate opeating, financial and combined leverages and illustrate its impact if sales increase by 5%.

6. Y Ltd. has approached to the public for issue of 8% debentures of ₹ 100 each at a premium of 10% and these debentures are repayable after 8 years. The expenses of issue are estimated to be ₹ 4 per debenture. Find out the cost of capital.

7. The details given below are in respect of two mutually exclusive proposals :

	Proposal I	Proposal II
	₹	₹
Cost of outlay	50,000	35,000
Cash inflows		
1st year	40,000	30,000
2nd year	40,000	30,000

Cut-ff rate is 10%. Evaluate the projects under N. P. V. and P. I. Methods.

8. What is Capital Market ? Discuss the significance of Capital Market.

Interpol

Cost of capital $= \dfrac{C + \frac{P-NP}{n}}{\frac{P+NP}{2}}$

where C = Annual Interest = 8
P = Par value = 100
NP = Net proceed = 106

2013

Time : 3 hours

Full Marks : 80

Candidates are required to give their answers in their own words as far as practicable.

The questions are of equal value.

*Answer any **four** questions in which Q. No. 1 is compulsory.*

Cost of capital $= \dfrac{C + \frac{P-NP}{n}}{\frac{P+NP}{2}} = \dfrac{8 + \frac{100-106}{8}}{\frac{100+106}{2}} = \dfrac{7.25}{103} = 0.0703 = 7.03\%$ PA

1. Choose the correct option from the following :
   (a) Financial Management had been called sometimes before as :
      (i) Business Finance
      (ii) Corporation Finance
      (iii) Institutional Finance
      (iv) Both (i) and (ii)
   (b) Pay Back Period means :
      (i) Period in which payment is to be made
      (ii) Period in which payment is to be received
      (iii) Period in which amount of investment is recovered
      (iv) None of these

(c) If earning per share on equity shares is 1.5 and market value of shares is ₹ 15, cost of capital will be :

(i) 10% (ii) 9%

(iii) 11% (iv) None of these

(d) Operating leverage is 2 and financial leverage is 1.5. If sales increase by 5%, earning before tax will rise by :

(i) 15% (ii) 17.5%

(iii) 10% (iv) None of these

(e) If equity share capital is ₹ 1,00,000, preference share capital ₹ 25,000 and debt capital ₹ 25,000, it will be called as :

(i) Low gearing (ii) High gearing

(iii) Normal gearing (iv) None of these

(f) The value of levered firm is higher than that of an unlevered firm on account of :

(i) Retaired earnings

(ii) Net profits

(iii) Corporate taxes

(iv) Interest on debentures

(g) Net working capital is the excess of current asset over :

(i) Current liabilities

(ii) Liquid assets

(iii) Long term liabilities

(iv) None of these

(h) When cash turnover is 5 and Annual cash operating expenses is ₹ 1,80,000. The minimum cash balance required will be :

(i) ₹ 36,000 (ii) ₹ 40,000

(iii) ₹ 50,000 (iv) ₹ 15,000

(i) Delinquency costs arise when :

(i) Customer's financial position is bad

(ii) Customer's financial position is doubtful

(iii) Both (i) and (ii)

(iv) None of these

(j) Which of the following is not the purpose of holding inventory ?

(i) Reduction in ordering cost

(ii) Benefits of quantity discount

(iii) Benefits of cash discount

(iv) All of these

2. Define Financial Management. Discuss the objectives of financial management.

3. What is capital structure ? Discuss the essentials of a good capital structure.

4. Define Leverage. Discuss the different types of leverage.