



V Semester B.M.S./M.M.S. (Integrated Course) Degree  
Examination, January 2018  
(CBCS) (2014-15 Scheme)  
BS 5.1 : BUSINESS FINANCE

Time : 3 Hours

Max. Marks : 70

SECTION – A

1. Answer **any ten** sub-questions from the following. **Each** sub-question carries **two** marks. **(10×2=20)**

- a) What is Financial Management ?
- b) Define Capital Structure.
- c) What do you mean by dividend decision ?
- d) What is capital budgeting ?
- e) What is cash cycle ?
- f) What do you mean by Lock Box System ?
- g) Give three benefits of receivables management.
- h) What is ordering cost ?
- i) What is scrip dividend ?
- j) What is NPV ?
- k) Define Marginal cost of capital.
- l) What is Financial Leverage ?

SECTION – B

Answer **any four** questions. **Each** question carries **5** marks. **(4×5=20)**

2. What is Capital Structure ? What are the features of an appropriate capital structure ?
3. Explain the process of Capital Budgeting.

P.T.O.



4. Calculate Financial Leverage/Degree of Financial Leverage in the following cases :
- EBIT Rs. 2,000, EBT Rs. 500
  - Contribution Rs. 20,000, fixed Costs Rs. 15,000, 10% Debt Rs. 37,500.
  - Increase in EPS 300%, Increase in EBIT 200%.
5. From the following capital structure of a firm, compute WACC based on existing capital structure :

Source of Finance	Amount (in Rs.)	Specific Costs (%)
Equity shares	18,00,000	18
Retained Earnings	6,00,000	–
Preference capital	4,00,000	11
Debentures	12,00,000	8

6. Calculate payback period in the following cases :

Particulars	Project A (Rs.)	Project B (Rs.)	Project C (Rs.)
Initial cash outflow	4,00,000	3,50,000	2,80,000
Annual cash inflow after tax	1,00,000	1,00,000	1,00,000
Life of the project	5 years	5 years	5 years

7. What are the factors determining working capital requirements ?

### SECTION – C

Answer **any two** questions. **Each** question carries **15** marks. **(15×2=30)**

8. What do you mean by Optimum Capital Structure ? Explain the factors determining Capital Structure.
9. ARR Ltd. provides the following information :
- Purchase price of each machine Rs. 6,00,000
  - Working capital Rs. 3,00,000
  - Useful life of each machine 4 years
  - Scrap value Rs. 1,00,000
  - Method of depreciation Straight line
  - Tax Rate 30%



g) Earnings before depreciation and tax :

Machine	Year 1	Year 2	Year 3	Year 4
Machine X	3,00,000	3,00,000	3,00,000	3,00,000
Machine Y	–	1,00,000	2,00,000	3,00,000

Suggest which of the above machine should be purchased on the basis of Accounting Rate of Return method.

10. Show the effect of financial leverage on EPS by considering the following two financial plans if EBIT is (a) Rs. 2,00,000 b) Rs. 1,00,000 :

Total funds required Rs. 10,00,000

Financial Plan 'A' 100% Equity Shares of Rs. 10 each

Financial Plan 'B' 50% Equity Shares of Rs. 10 each and 50%, 15% Debt.

Tax Rate 40%.

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