

2125
B.Com. (Financial Markets) FYUP
Third Semester
Paper: Applied Business Finance

Time allowed: 3 Hours

Max. Marks: 80

NOTE: Attempt four short answer type questions from Section-A. Attempt two questions each from Section B and C respectively.

x-x-x

Section – A

1. Difference between Accounting profit and Economic Profit.
2. Given Sales - Rs 3,00,000; Direct Materials - Rs 1,00,000; Direct labour – Rs 60,000; Variable Overheads – 40,000 and Profit- Rs 50,000. Find Fixed Cost.
3. What is Semi- Variable Cost.
4. Following is the relevant data for two machines A and B.

Particulars	A	B
Capital Outlay	Rs2,000	Rs 2,400
Net Cash Flow		
1 st Year	Rs 1,000	Rs 800
2 nd Year	Rs 1,000	Rs 800
3 rd Year	-	Rs 2,000

Find out which of the two is a better investment showing necessary workings.

5. A Company issues 10,000 10% Preference Shares of Rs 100 each redeemable after 10 years at a premium of 5%. The cost of issue is Rs 2 per share. Calculate the cost of preference capital.
6. Given Sales –10,000 units; Variable cost – Rs 1,00,000; Sales Value- Rs 2,00,000; Fixed Cost- Rs 40,000; Selling price per unit is Rs 20. You are required to find out a) Break even Volume b) Break even sales unit. (4x5)

Section –B

7. The Decision Making problem faced by business firm process is one of constraint optimisation. Discuss. (15)
8. a) Given the following, calculate P/V ratio and profit when sales are ₹20,000 fixed cost ₹4000 and breakeven point ₹10,000.
b) From the following data, calculate breakeven point (BEP) when selling price per unit is ₹20; variable cost per unit is ₹15 and fixed overhead is ₹20,000. It says that 20% above BEP, determine the net profit. (15)
9. An investor has to choose between two investment projects, A and B, each requires an initial outlay of ₹10 lakhs. The present value of possible cash flows from them and their associate probabilities are given below.

	Investment Project A (in Rs lakhs)		Investment Project B (in Rs lakhs)		
Cash flow	40	60	30	50	70
Probability	0.6	0.4	0.4	0.3	0.3

- a) Calculate expected value of each investment project.
 - b) Calculate the level of risk of each investment project.
 - c) In which project the firm should undertake investment. (15)
10. Explain the meaning, significance and techniques of profit planning and control. (15)

P.T.O.

(2)

Section –C

11. M/S Albert and Company has the following capital structure as on 31 March 2017:

	In Rs
10% Debentures	3,00,000
9% preference shares	2,00,000
Equity-5000 of Rs 100 each	5,00,000
Total	10,00,000

The equity shares of the company are quoted at ₹102 and the company is expected to declare a dividend of ₹9 per share for 2017. The company has registered a dividend growth of 5%, which is expected to be maintained.

- (i) Assuming the tax rate applicable to the company at 50%, Calculate the weighted average cost of capital. State your assumptions, if any.
- (ii) Assuming in the above exercise, that the company can raise additional term loan at 12% for ₹5, 00,000 to finance and expansion. Calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from ₹9 per share to ₹10 per share, but the business risk associated with new financing may bring down the market price from 102 to ₹96 per share. (15)

12. A company proposes to install a new machine involving a capital cost of ₹1,80,000. The life of the machine is 5 years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of ₹34,000 per annum. The company's tax rate is 45%. The net present value factors for five years are as under;

Discounting rate	14	15	16	17	18
Cumulative Factor	3.43	3.35	3.27	3.20	3.13

You are required to calculate the internal rate of return of the proposal. (15)

13. Write short notes on :

- a) ARR method
b) IRR method (15)

14. What is cost of capital? Explain its types, importance and components. (15)