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Seat No. _____

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SARDAR PATEL UNIVERSITY
B.B.A. (III Semester) (2010 Batch) Examination
Friday, 24th November 2017
2.00 pm – 4.00 pm

UM03CBBS02- Financial Management - I

Total Marks : 60**Note :** Figures to the right indicate marks.

Q.1 Give importance of financial management and explain various financial decisions. (15)

OR

Q.1 Narrate : Goals of financial management. (15)

Q.2

(a) Give concept of cost of capital and explain cost of debt. (06)

(b) A company has issued 10% perpetual debentures of Rs. 100 each to raise Rs. Lakhs. The tax rate is 55%. Calculate the cost of debentures under the following circumstances : If they are issued at (i) Par (ii) at a premium of 8% and (iii) at a discount of 8%. (09)

OR

Q.2

(a) Explain the concept of cost of preference share and retained earnings. (06)

(b) A company has on its books the following amounts and specific costs of each type of capital. (09)

Type of capital	Book Value Rs.	Market Value Rs.	Specific Cost (%)
Debentures	600000	570000	6.0
Preference share capital	140000	160000	9.0
Equity share capital	800000	1540000	14.0
Retained Earnings	300000	--	10.0

From the above information find out the weighted average cost of capital using.

(i) Book value weights

(ii) Market value weights

Q.3

(a) Explain the concept of capital budgeting and discuss time value of money. (06)

(b) A company is considering to invest Rs. 40000 in a capital project. Its scrap value is nil. Its useful life is 5 years. Tax rate is 50%. The company adopts the straight line method of depreciation. The cash flow before depreciation and tax is as follows (CFBDT) :

Year	CFBDT (Rs.)	Year	CFBDT (Rs.)
1	8000	4	12000
2	8800	5	20000
3	11200		

On the basis of above information, calculate the Rate of Return on average investment (ARR).

OR

Q.3

- (a) Discuss the process of capital budgeting. (06)
- (b) A company is considering to invest Rs. 80000 in a capital project. Its scrap value is zero and its economic life is 5 years. Tax rate is 50%. The SLM method is used by the company to provide depreciation. Its cash flow before tax is as follows: (09)

Year	CFBT	10% P.V. Factor
1	16000	0.9091
2	17600	0.8265
3	22400	0.7513
4	24000	0.6830
5	40000	0.6209

From the above information find out - Profitability on the basis of Net Present Value Method at 10% rate of discount.

Q.4

- (a) Give concept of working capital and explain factors affecting working capital. (08)
- (b) Discuss two dimensions of working capital management. (07)

OR

Q.4

- (a) Explain in brief sources of working capital. (05)
- (b) X Ltd. Operates a normal working day of 8 hours. There are 25 working days in a month. Production cost per month are as follows: (10)

Cost	Amount (Rs.)
Raw materials	200000
Direct Labour	100000
Overheads :	22400
Fixed	75000
Semi-Variable	37500
Variable	37500
	<u>150000</u>
Net Profit	<u>50000</u>
Sales	<u>500000</u>

Other information are follow:

- (i) Raw materials are in stock on an average for 1 month.
- (ii) Materials are in process on an average for $\frac{1}{2}$ month.
- (iii) Finished goods are in stock on an average for 1 month.
- (iv) Credit allowed by creditors is 1 month.
- (v) Credit allowed to debtors 2 months.
- (vi) Lag in payment of wages $\frac{1}{8}$ months.
- (vii) Lag in payment of overheads 1 month.

You are required to calculate working capital requirements statement.