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SEAT No. _____

[43]

No. of Pages: 5.02

SARDAR PATEL UNIVERSITY
B.B.A. [HONOURS][ITM] – IIIrd Semester
Wednesday, 22nd November, 2017
Session: Evening Time: 2.00 p.m. To 4.00 p.m.
Subject Code: UM03EBBI05
Subject: Financial Management & Services - 1

Total Marks: 60

- Q1 Discuss in detail the functions of a financial manager. [15]
OR
 Q1 What is under-capitalization? Explain its causes and remedies. [15]
 Q2 What is a capital budgeting decision? Discuss the features and types of capital budgeting decision. [15]
OR
 Q2 Fenil Ltd is considering investing in a project that is expected to cost Rs. 48,00,000. The expected cash inflows (before dep. & tax) are given below. The co. is using SLM method of depreciation. Tax rate 50%. [15]

YEAR	Cash Inflows (before dep. & tax)
1	1200000
2	1200000
3	1800000
4	1800000
5	3000000

Calculate PBP, ARR, NPV and PI at 10%.

- Q3[a] Explain the causes for financial innovation. [08]
 Q3[b] Discuss the challenges facing the financial services sector. [07]
OR
 Q3 Write a note on : [15]
 1. Equity shares 2. Commercial papers
 Q4[a] Explain the various concepts of cost of capital and discuss the significance of cost of capital in financial management. [15]
OR
 Q4[a] Assuming that a firm pays tax at a 50% rate, compute the after-tax cost of capital in the following cases: [09]
 1. A 10-year, 8%, Rs.1000 par bond sold at Rs.950 less 4% underwriting commission.
 2. A preference share sold at Rs.100 with a 9% dividend and a redemption price of Rs.110 if the company redeems it in 5 years.
 3. The shares of a chemical company are selling at Rs.20 per share. The firm has paid dividend @ Rs.2 per share last year. The estimated growth of the company is approximately 5% per year.

Q4[b] A firm's after-tax cost of capital of the specific sources is as follows:

[06]

Cost of debt 8%

Cost of preference shares 14%

Cost of equity funds 17%

The following is the capital structure:

Source	Amount (Rs.)
Debt	3,00,000
Preference capital	2,00,000
Equity capital	5,00,000
Total	10,00,000

Determine the weighted average cost of capital of the firm.

-X-X-X-X-X-X-X-