

[44, 47, A-42, A-43]

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SARDAR PATEL UNIVERSITY

T.Y. B.B.A (HM) 4 years Examination, V Semester (TTM)

Wednesday, 23<sup>rd</sup> November, 2016

2:00 p.m. to 4:00 p.m.

UM05CBBH05:- Financial Management

705

Total Marks: 60

Note: 1. Figures to the right indicate marks of the questions.

2. Answers should be precise and to the point.

- Q:-1 (A) Define Financial Management. "Profit-maximization is not only the objective of any business" – justify the statement with the objectives of financial management. [10]
- (B) Define Over and Under Capitalization with its symptoms. [05]

OR

- Q:-1 (A) Define Financial planning. Write the factors affecting Financial Planning in detail. [08]
- (B) Write a detail note on A's of Financial Management, [07]
- Q:-2 (A) Write a short note on:- (Each 4 marks) [08]
- (1) Equity Share (2) Public Deposit
- (B) Define SEBI. Write the functions of SEBI. [07]

OR

- Q:-2 (A) "Debenture as a long term source of finance"- justify the statement. [08]
- (B) "Stock market enhances the investors to pool funds"- justify the statement with importance of stock exchange. [07]
- Q:-3 (A) A company has following amounts on its book value:- [09]

Types of Capital	Book Value	Market Value	Specific Cost
Debentures	4,00,000	3,80,000	5%
Preference Shares	1,00,000	1,10,000	8%
Equity Shares	6,00,000	12,00,000	15%
Retained Earnings	2,00,000		13%

Calculate Weighted Average Cost of Capital using book value weights and market value weights.

- (B) Define Capital Structure. Explain in brief features of capital Structure. [06]

OR

- Q:-3 (A) Safal Co. Ltd is proposing to construct a new plant. The plant would require Rs. 50, 00,000. There are three financing plans before the company. They are 1) Issue of 5, 00,000 ordinary shares of Rs. 10 each per share. [10]
- 2) Issue of 2,50,000 ordinary shares of Rs. 10 each & 25,000 debentures of Rs.100 each with the coupon rate of interest of 8% and
- 3) Issue of 2, 50,000 ordinary shares of Rs.10 per share and 25,000, 8% Preference Shares of Rs. 100 per share.
- Calculate the EPS when EBIT is 1) Rs. 5,00,000 2) Rs. 6,00,000 3) Rs. 7, 00,000. Assume tax rate to be 55%.
- (B) Define Cost of capital. Explain the significance of Cost of Capital. [05]
- Q:-4 (A) What is the meaning of Capital Budgeting? Explain its significance in brief. [05]

(B)

A company is considering an investment proposal. The details are as under:-

[10]

Initial Investment: - RS. 1,20,000

Life of the project:- 5 Years

Salvage Value: - Nil

The Cash Flow Before Depreciation & Tax for 5 years are as under:-

YEAR	CFBT
1	24,000
2	26,400
3	33,600
4	36,000
5	60,000

The company follows Straight Line Method of depreciation. The tax rate applicable to the company is 50%.

Evaluate the proposal under the following methods:-

- (1) Pay back Period
- (2) Net Present Value
- (3) Profitability Index

The Present Value at 10% factor:- 0.909, 0.826, 0.751, 0.683, 0.621

OR

Q:-4

TATA Steel Company provides following details of two mutually exclusive investment proposals:-

[15]

Particulars	Project A (RS.)	Project B (RS.)
Initial Capital Investment	6,75,000	5,65,000
Scrap Value	75,000	65,000
Estimated Life	5 Years	4 Years
Method of Depreciation	Straight Line	Straight Line
Cost of Capital	10%	10%

The Cash Flow Before Depreciation & Tax for 5 years are as under:-

YEAR	Project A (RS.)	Project B (RS.)
1	1,40,000	1,50,000
2	1,80,000	2,00,000
3	2,00,000	2,40,000
4	2,20,000	2,00,000
5	2,70,000	-----

The company is under 40% tax bracket.

Evaluate the project under:-

- (1) Pay back period
- (2) Average Rate of Return
- (3) Net Present Value
- (4) Profitability Index

Present Value at 10% factor:- 0.909, 0.826, 0.751, 0.683, 0.621

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