

SEAT No. _____

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SARDAR PATEL UNIVERSITY
 B.B.A. [HONOURS][ITM] - Vth Semester
 Thursday, 16th November, 2017
 Session: Evening Time: 2.00 p.m. To 4.00 p.m.
 Subject Code: UM05EBBI03
 Subject: Principles of Financial Management

Total Marks: 60

Q1 Define financial management. Discuss in detail the finance functions. [15]

OR

Q1 Write a brief note on: [15]

1. Use of IT in Financial decision-making
2. Scope of financial management

Q2 Discuss the concept, causes and remedies of under capitalization. [15]

OR

Q2[a] Calculate the operating, financial and combined leverage for the following firms: [10]

Particulars	X	Y
Output (units)	60,000	1,00,000
Fixed costs (Rs.)	7000	1500
Variable cost per unit (Rs.)	0.20	0.02
Interest on Borrowed capital (Rs.)	4000	---
Selling price per unit (Rs.)	0.60	0.10

Q2[b] Briefly explain the theories of capitalization. [05]

Q3 Explain the concept, significance and process of capital budgeting. [15]

OR

Q3 A company is contemplating to purchase a machine. The machine costs Rs.5,00,000. A discounting rate of 10% is to be used. The machine is to be written off in five years by straight line method of depreciation with nil residual value. Cash flows after tax are expected as follows: [15]

Year	Machine A
1	1,50,000
2	2,00,000
3	2,50,000
4	1,50,000
5	1,00,000

Calculate the following:

1. Payback period
2. Net Present value
3. Profitability index
4. Average rate of return

Q4[a] Explain the internal and external factors affecting the capital structure decision. [15]

OR

Q4[a] Two companies X and Y belong to the equivalent risk group. The two companies are identical in every respect except that Y is a levered while X is unlevered. The outstanding amount of debt of the levered firm is Rs.6,00,000 in 10% debentures. The other information is as follows: [10]

Particulars	X	Y
EBIT	1,50,000	1,50,000
Interest	-----	60,000
NI	1,50,000	90,000
Ke	0.15	0.20
S	10,00,000	4,50,000
B	-----	6,00,000
V	10,00,000	10,50,000
Ko	0.15	0.143

An investor owns 5% equity shares of company Y. Show the arbitrage process and the amount by which he could reduce his outlay through leverage.

Q4[b] Explain the guiding principles of capital structure decision. [05]