SEAT No._____ No. of Printed Pages : 02

SC

SARDAR PATEL UNIVERSITY

B.B.A. (ITM) (SEMESTER-V) EXAMINATION (4 YEARS)

[10/A-6]

2017

Wednesday, 15th November

10:00 A.M. To 12:00 P.M.

UM05EBBI03 : PRINCIPLES OF FINANCIAL MANAGEMENT

Total Marks: 60

Note: (1) Figures to the right indicate full marks of each question.
(2) All questions carry equal marks.
(3) All working notes are part of answer.
(4) The present value table will be provided on request.

Q-1 (A) Explain Profit Maximization and Wealth Maximization goals. Which one is superior in your opinion and why? [08]

(B) "The importance of financial management has increased in modern times." Elucidate. [07]

OR

Q-1 (A) Discuss the role of Financial Manager in details. [09]

(B) "It is either eBusiness or no business at all". Discuss with reference to efinance. [06]

Q-2 (A) The following is the details of Ram Limited for the year ended 31st March, 2017 are furnishes below: [08]

Operating Leverage	3:1
Financial Leverage	2:1
Interest Charges per annum	Rs. 20,00,000
Corporate tax rate	50%
Variable cost as percentage of sale	60%

Prepare the income statement of the company.

(B) Difference between over capitalization and under capitalization. [07]

OR

Q-2 (A) The capital structure of Arpit Export Limited consist of an equity share capital of Rs. 6,00,000 (Share of Rs. 10 each) and Rs. 6,00,000 10% Debenture. Sales increased by 20% from 60,000 to 72,000 units, the selling price are Rs. 10 per unit. Variable cost is Rs. 6 per unit and fixed costs amount to Rs. 1,00,000. The company's tax rate is 50%. [09]

You are required to compute the degree of operating leverage, degree of financial leverage and degree of combined leverage.

(B) Explain the causes of over capitalization. [06]

Q-3 (A) Sindhu Syntex is considering purchasing a machine. Two machines A & B are available with the following details: [08]

Particular	Machine-A (Rs.)	Machine-B (Rs.)
Cost	24000	30000
Estimated Scrap	2400	3600

Estimated cash Inflows (Rs.)						
Year	1	2	3	4	5	6
Machine–A	3000	4500	7500	7500	6000	6000
Machine-B	6000	9000	9000	9000	4500	3000

Evaluate the two alternatives using Pay Back Period Method.

(B) Define capital budgeting and explain steps of capital budgeting process. [07]

OR

Q-3 (A) Calculate the PBP, ARR, NPV and PI for the a project which requires an initial outlay of Rs. 10,000 and generate years ending cash flow (After tax but before depreciation) of Rs. 6,000, Rs. 3,000, Rs. 2,000, Rs. 5,000 and Rs. 5,000 from the end of the first year to the end of fifth year. The required rate of return is 10% and pays tax at 50%. The project has a life of five years and depreciation at straight line basis. [11]

Year	1	2	3	4	5
Discount Rate at 10%	0.909	0.826	0.751	0.683	0.620

(B) Write a note on: Net Present Value [04]

Q-4 (A) Describe the factors affecting capital structure decision. [10]

(B) The following data related to companies X and Y which are homogeneous groups: [05]

Net Operating Income	Rs. 50,000	Rs. 50,000
Overall cost of Capital	12.5%	12.5%
5% Debentures	Rs. 2,00,000	---

Calculate the value of companies under Net Operating Income (NOI) theory and also compute cost of equity capital.

OR

Q-4 (A) In considering the optimum capital structure for a company, the following estimates of cost of debt and equity capital have been made at various level of debt- equity mix: [09]

Debt as a % of total capital employed	**Cost of Debt (%)**	**Cost of Equity (%)**
0	7	15
10	7	15
20	7	16
30	8	17
40	9	18
50	10	21
60	11	24

You are required to determine optimum debt-equity mix for the company by calculating composite cost of capital.

(B) Critically examine the Modigliani and Miller approach of capital structure theory. [06]