

(A-4)

SARDAR PATEL UNIVERSITY
B.B.A. [HONOURS] [HM] - Vth Semester

Monday, 23rd March, 2015

Session: Morning Time: 10.30 a.m. To 12.30 p.m.

Subject Code: UM05CBBH05

Subject: Financial Management

Total Marks: 60

- 1[a] What is financial management? Explain the goals of financial management. [10]
[b] Explain in brief the causes of under-capitalization. [05]

OR

- 1[a] Define financial planning and explain the factors affecting financial planning. [10]
[b] Write a brief note on Risk – return trade-off. [05]

- 2[a] Discuss in detail equity share capital with its features, merits and demerits. [15]

OR

- 2[a] Discuss the importance of stock exchange. [08]
[b] Write a note on BSE. [07]

- 3[a] What is cost of capital? Explain its significance in decision-making. [10]
[b] Calculate the cost of capital in each of the following cases: [05]

1. A Ltd. issued 12% debentures of ₹100 each at par. Brokerage 2% of issue price. Corporate tax rate is 30%.
2. The current market price of V Ltd.'s equity share is ₹64. The company had paid dividend of ₹8 per share last year which is expected to grow at 5% p.a.

OR

- 3[a] What are the characteristics of an ideal capital structure? [08]
[b] Atul Ltd. needs Rs. 5,00,000 for a new plant. The following three financial plans are feasible: [07]

1. The company may issue 50,000 equity shares at Rs.10 per share.
2. The company may issue 25,000 equity shares at Rs.10 per share and 2500 debentures of Rs.100 denomination bearing 8% rate of interest.
3. The company may issue 25,000 equity shares at Rs.10 per share and 2500 preference shares at Rs.100 per share bearing 8% rate of dividend.

If company's EBIT is Rs.1,00,000 what would be the earnings per share? Which alternative would you recommend and why? [Tax rate = 50%.]

- 4[a] Fenil Ltd is considering investing in a project that is expected to cost ₹ 48,00,000. [15]
The expected cash inflows (before tax & depreciation) are given below. The co. is using SLM method of depreciation. Tax rate 50%.

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

Calculate PBP, ARR, NPV at 10%.

OR

- 4[a] Explain the process of capital budgeting. [08]
[b] What is a capital budgeting decision? Why is it very important for a firm? [07]

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