SARDAR PATEL UNIVERSITY
BBA (ITM) (V Semester) Examination
Monday, 23 March 2015
10.30 am - 12.30 pm
UM05EBBI03 - Principles of Financial Management

Total Marks: 60

Q.1

(A) "Without adequate Finance no business can survive and without efficient (10) Financial management, no business can prosper and grow." - Comment on this statement bringing out the role of Financial management.

(B) Write a note on use of IT in Financial Decision making. (05)

OR

Q.1

(A) What is financial Management ? How does a modern financial (10) managment differ from traditional financial management.

(B) Write a short note on risk-return trade off. (05)

Q.2

(A) "Leverage is two edged of weapon". Explain. (06)

(B) Calculate operating Leverage and Financial Leverage under situations A, (09) B & C and Financial Plans 1, 2 & 3 respectively from the following information relating to the operation & capital structure of Ashok Limited. Also find out the combinations of Operating and Financial Leverage which give highest value and the least value. How are these calculations useful to financial manager of a company ?

- Installed Capacity   1200 units
- Actual production & sales   800 units
- Selling Price per Unit   Rs. 15
- Variable cost per Unit   Rs. 10
- Fixed cost ! situation A   =   Rs. 1000
                          B   =   Rs. 2000
                          C   =   Rs. 3000

Capital Structure :

| Financial Plan | | |
	1 (Rs.)	2 (Rs.)	3 (Rs.)
Equity	5000	7500	2500
Debt	5000	2500	7500

Cost of debt (k_d) (for all plan - 12%)

OR

Q.2

(A) Define the term capitalization. Explain the causes of over capitalization. (08)

(B) The capital structure of Shri Ram Finance Limited consists of an Equity (07)
share capital of Rs. 300000 (Share of Rs. 10 each) and Rs. 300000, 10%
Debentures. Sales increased by 20% from 30000 to 36000 units, the
selling price is Rs. 10 per Unit. Variable cost Rs. 6 per unit and fixed
costs amount to Rs. 50000.
The Company's tax rate is 50%
You are required to compute the degree of Operating leverage, degree of
Financial Leverage & degree of Combined leverage.

Q.3 A company is considering an investment proposal to install new machine (15)
at a cost of Rs. 50000. The Machine has a life expectancy of 5 years and
no salvage value. The tax rate is 35%. Assume the firm uses straight
Line depreciation and the same is allowed for tax purpose. The estimated
cash flow before depreciation and tax (CFBT) from the investment
proposal are as follows :

Year	CFBT (Rs.)
1	10000
2	10692
3	12769
4	13462
5	20385

Computer the following :
(1) Pay Back Period
(2) Average Rate of Return
(3) NPV & PI at 10% Discount Rate

OR

Q.3

(A) Write a note on Pay Back Period. (06)

(B) Kailash Limited is considering investing in a project that costs (09)
Rs. 500000. The estimated salvage value is zero; tax rate is 35%. The
company uses straight line depreciation. For tax purpose and the
proposed project has cash flow before depreciation & tax (CFBT) as
follows:

Year	1	2	3	4	5
CFBT (Rs.)	100000	100000	150000	150000	250000

Determine the following : (1) PBP
(2) ARR

Q.4

(A) What is optimum capital structure ? What factors should be born in the mind in devising capital structure? (10)

(B) Akshat limited has expected a net operating Income of Rs. 300000 and equity capitalisation Rate (Ke) is 10%. It has a debt of Rs. 500000 at 8%. Compute the value of the firm and overall (weighted averate) cost of capital (Ko) according to Net Income Approach. Income tax may be ignored. (05)

OR

Q.4

(A) Compute the total value of the firm, value of Equity shares and overall (average) cost of capital from the following information : (10)

Net operating Income   Rs.   200000
Total Investment   Rs. 1000000

Equity capitalization Rate (Ke) :

(A) If the firm uses no debt   10%
(B) If the firm uses Rs. 400000 debentures   11%
(C) If the firm uses Rs. 600000 debentures   13%

Assume that Rs. 400000 debentures can be raised at 5% rate of interest where as Rs. 600000 debentures can be raised at 6% rate of Interest.

(B) Write a note on : M - M Theory (Modigliani-Miller Theory) (05)

* * *