

SEAT No. _____

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SARDAR PATEL UNIVERSITY

B.B.A.[HONOURS][ITM] – IIIrd Semester- [NC]Monday, 11th January, 2021

Session: Morning Time: 10:00 a.m. TO 12:00 p.m.

Subject Code: UM03DBBI23

Subject: Financial Management & Services - I

[5]

Answer any 4 questions out of 8 questions

Total Marks: 60

Q 1 Define financial management and explain in detail the functions of financial management. [15]

Q 2 What is capitalization? Discuss in brief over-capitalization and under-capitalization. [15]

Q 3 Why is capital budgeting a significant decision for a firm? Briefly explain the types of capital budgeting decisions. [15]

Q 4 ABC Ltd is evaluating two mutually exclusive proposals for new capital investment. The following information about the proposals is available. [15]

| | |
|-------------------------|-------|
| Cost of Project (Rs.) | 80000 |
| Salvage Value (Rs.) | 8000 |
| Estimated Life [years] | 4 |
| Depreciation Method | SLM |
| Tax Rate | 50% |
| Required rate of return | 10% |
| CFBDT : | |
| 1 | 24000 |
| 2 | 28000 |
| 3 | 32000 |
| 4 | 44000 |

Evaluate the proposal using PBP, ARR & NPV @ 10% discount rate.

Q 5 Write a note on:
1. Features of financial services [15]

2. Distinction between capital market and money market

Q 6 Enlist and explain the innovative financial instruments. [15]

Q 7 Explain the various concepts of cost and the significance of cost of capital in financial management. [15]

Q 8 a. Calculate the explicit cost of debt for each of the following situations: [06]

[a] Debentures are sold at par and floatation costs are 5%.

[b] Debentures are sold at premium of 10% and floatation costs are 5% of issue price.

[c] Debentures are sold at discount of 5% and floatation costs are 5% of issue price.

Assume:

- Coupon rate of interest on debentures is 10%;
- Face value of debentures is Rs. 100;
- Maturity period is 10 years; and Tax rate is 35%.

b. Calculate the cost of capital in each of the following cases: [09]

1. A Ltd. issued 12% debentures of Rs.100 each at par. Brokerage 2% of issue price. Corporate tax rate is 30%.

2. Q Ltd. issued 12% preference shares of Rs.100 each at 5% discount and redeemable after 5 years at 5% premium. Brokerage is 2%. Corporate tax rate is 30%.

3. The current market price of V Ltd.'s equity share is Rs.64. The company had paid dividend of Rs.8 per share last year which is expected to grow at 5% p.a.

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