[ ] SEAT No: ________ No. of Printed Pages: 02

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SARDAR PATEL UNIVERSITY
BBA (ITM) SEM: III EXAMINATION
2021
Tuesday, January 5
10:00 AM to 12:00 PM
UM03EBBI05: FINANCIAL MANAGEMENT & SERVICES - I

Total Marks: 60

Note: Figures to the right indicate marks of question.
All working notes are part of the answer.
Write answer of <u>any four questions</u> from below given eight questions.

Q:1 Explain the concept of 'Profit Maximization' and 'Wealth Maximization'. Which of these do you think is a better operational guide for a finance manager? Why? [15]

Q:2 Write note on: [15]
1) Significance of financial management
2) Theories of capitalisation

Q:3 Mansi Ltd is considering two mutually exclusive projects. Both requires initial investment of Rs.50,000 each and have a life of 5 years. The cost of capital of the company is 10% and tax rate is 50%. The salvage value at the end of project is zero for project A and B. The depreciation is charged on SLM method. The estimated net cash inflows (before depreciation & tax) of the two projects are as follows: [15]

Year	Project A	Project B
1	20,000	30,000
2	22,000	27,000
3	28,000	22,000
4	25,000	25,000
5	30,000	20,000

Evaluate both the project on the basis of PBP, NPV and PI method

Q:4 Explain concept of capital budgeting and describe steps of capital budgeting process. [15]

Q:5 Give meaning and features of financial services. Also discuss challenges faced by the financial services sector. [15]

Q:6 Explain following financial instruments with its features: [15]
1) Equity Share
2) Treasury Bill
3) Commercial paper

(P.T.O.)

Q:7 Shaan Ltd interested in measuring its cost of specific types of capital as well as its overall capital cost. The finance dept. of company indicates the following cost would be associated with the sale of debentures, preference share and equity share. The corporate tax rate is 50%. [15]

Debentures: The company can sell 10 year Rs.500 face value debentures with a 9% rate of interest. An underwriting fee of 2% of the face value would be incurred.

Preference Shares: The 11% Rs. 100 face value preference share will be sold for Rs.125.However, the company will have to pay Rs.6 per preference share as underwriting commission.

Equity Shares: The company's equity shares are currently selling for Rs.150 per share. The firm expects to pay Rs. 8 per share at the end of the coming year. Its growth rate is expected to be 7%.The company will also incur Rs. 5 per share as flotation cost.

Capital Structure	Book Value	Market Value
Debenture	4,00,000	3,60,000
Preference Shares	2,00,000	2,40,000
Equity Shares	4,00,000	6,00,000
	10,00,000	**12,00,000**

Calculate **WACC** using **book value weight** and **market value weight**.

Q:8[A] Explain meaning and significance of cost of capital. [10]

[B] Following information are available with regards to the capital structure of Mukti Ltd. [05]

Source of fund	Amount	After tax cost of capital
Debenture	4,00,000	10%
Preference Share Capital	2,00,000	10 %
Equity Share Capital	5,00,000	15%
Retained Earnings	9,00,000	12%

You are required to calculate weighted average cost of capital based on book value weight.

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