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SARDAR PATEL UNIVERSITY
BBA (ITM) SEM: III EXAMINATION
2016
Saturday, 3rd December
2:00 P.M. to 4.00 P.M.
UM03EBBI05
FINANCIAL MANAGEMENT & SERVICES - I

Total Marks: 60

Note: All working notes are part of the answer.

Q:1[A] "The importance of financial management has increased in modern times"- Examine in the light of this statement, the importance of financial management in modern era. [09]

[B] What do you understand by capitalization? Explain theories of capitalization. [06]

OR

Q:1[A] What is wealth maximization? How is the goal of wealth maximization a better operative criterion than profit maximization? [09]

[B] Give meaning and causes of under capitalization. Suggest any three measures to correct it. [06]

Q:2 A company is considering an investment proposal to install new milling controls. The project will cost Rs.50,000. The facility has life expectancy of 5 years and no salvage value. The company's tax rate is 55%.The firm uses straight line depreciation method. The estimated profit before depreciation and tax from the proposed investment proposal are as follows: [15]

Year	1	2	3	4	5
Profit (Rs.)	10,000	11,000	14,000	15,000	25,000

Compute the following:
1) Pay back period
2) Average rate of return
3) Net present value @ 10 % discount rate
4) Profitability index @ 10 % discount rate
5) Internal rate of return

OR

Q:2[A] What do you understand by capital budgeting? Explain process of capital budgeting. [10]

[B] From the following information, calculate net present value and profitability index of the project. [05]

Initial investment	30,000
Life of the project	5 years
Minimum required rate of return	10%
Scrap Value	2,000

The profit before depreciation and after tax are as follows:

Year	1	2	3	4	5
Cash flow	20,000	10,000	5,000	3,000	2,000

Q:3[A] Define financial service and explain scope of financial services. [09]

[B] List out capital market instruments and explain any one of it. [06]

OR

Q:3[A] Describe the challenges which are being faced by financial service sector. [09]

[B] Differentiate between money market and capital market. [06]

Q:4[A] Durga Ltd. is interested in measuring its cost of specific types of capital as well as its overall cost of capital. The finance dept. of company indicates the following cost would be associated with the sale of debentures, pref. share and equity share. The corporate tax rate is 50%. [10]

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**.

[B] Explain: [05]

1) Explicit cost & implicit cost
2) Historical cost & future cost

OR

Q:4[A] Define cost of capital. Explain its significance in financial decision making. [09]

[B] Calculate **cost of capital** in following cases: [06]

1) Neha Ltd issued 10,000, 10 years 8% debentures of Rs.100 each at 4% discount. Under the terms of issue, these debentures are to be redeemed after 10 years at 5% premium. The cost of issue is 2%.Assume corporate tax rate at 30%.Calculate **before tax and after tax cost of debt capital.**

2) Calculate **cost of retained earnings** from the following information:

Current market price of a share	Rs.140
Expected dividend per share	Rs.14
Growth in expected dividend	5%
Brokerage per share	3%
Tax rate on income distributes as dividend	30%

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