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SEAT No.______ SARDAR PATEL UNIVERSITY No. of Printed Pages : 2

[8/A-5] B.B.A. (ITM) (SEMESTER: V) (N.C.) EXAMINATION (4 Years)

Monday, 29th October, 2018

10:00 A.M. To 12:00 P.M.

UM05EBBI03: PRINCIPLES OF FINANCIAL MANAGEMENT

Total Marks: 60

Note: 1. Figure to the right indicate full marks of question.
2. All questions carry equal marks.
3. Working notes are the part of answer.

Q-1 (A) What is Financial Management? Explain significant of financial management. [10]

(B) Write note on: Risk return trade off. [05]

OR

Q-1 (A) Discuss the goals of financial Management. [10]

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

Q-2 (A) Difference between operating leverage and financial leverage. [06]

(B) Following data is relating to Pramukh limited: [09]

Particulars	Amount (Rs.)
Sales	3,00,000
Variable cost	1,20,000
Contribution	1,80,000
Fixed Cost	90,000
Earnings before interest and tax (EBIT)	90,000
Interest	30,000
Earnings before tax (EBT)	**60,000**

You are required to compute:

1. OL, FL and CL
2. % change in EBIT if there is 20% change in sales.
3. % change in EBT if there I s20% change in EBIT.

OR

Q-2 (A) From the following data, compute the OL, FL, and CL for two companies. [07]

Particulars	Amount in (Lakhs)	
	Diya Limited	Jiya Limited
Sales	500	1000
Variable cost	200	300
Contribution	300	700
Fixed Cost	150	400
Earnings before interest and tax	150	300
Interest	50	100
Earnings before tax	**100**	**200**

You are required to comment on relative risk position.

(B) Difference between over capitalization and under capitalization. [08]

Q-3 (A) Define the capital budgeting. Discuss its significant. [07]

(B) Hiren limited is considering two investment proposal X and Y. Both the [08]

[P.T.O.]

proposals require an initial investment of Rs. 50,000. Both the projects have estimated life 5 years. From the following data calculate NPV for both proposals. Cost of Capital is at 10%.

Year	1	2	3	4	5
X (CFAT)	10,000	12,000	15,000	18,000	20,000
Y (CFAT)	20,000	18,000	15,000	12,000	10,000

OR

Q-3 Tushar limited is considering investing in a new venture costing Rs. 45,00,000. Expected annual income before depreciation and tax is as below: [15]

Year	1	2	3	4	5
Income (Rs.)	30,00,000	25,00,000	20,00,000	35,00,000	13,00,000

Depreciation @ 20% on original cost of the assets and tax @ 50%. The company's cost of capital is 12%.
Calculate PBP, ARR, NPV, PI.

Q-4 (A) What is capital Structure and describe guiding principles of capital structure decisions. [08]

(B) Khodal limited has an EBIT of Rs. 1,00,000. The cost of debt is 10% and the outstanding debt amount to Rs. 4,00,000. Presuming the overall capitalization rate as 12.5%, calculate the total value of firm and the equity capitalization rate. [07]

OR

Q-4 (A) In considering the most desirable capital structure for a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix: [08]

Debt as % of total capital employed	Cost of Debt (%)	Cost of Equity (%)
0	5.0	12.0
10	5.0	12.0
20	5.0	12.5
30	5.5	13.0
40	6.0	14.0
50	6.5	16.0
60	7.0	20.0

You are required to compute the optimal debt-equity mix for the company by calculating composite cost of capital.

(B) Write note on: Traditional Approach and Net Income Approach. [07]

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