Reg. No. | | | | | | | | | |

BBABMC 260/BBMBMC 260

Credit Based IV Semester B.B.A./B.B.M. Degree Examination, April/May 2018
(2012 Scheme)
FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time : 3 Hours Max. Marks : 120

***Instructions** : 1) A single answer booklet containing **40** pages will be issued.*
*2) **No** additional sheets will be issued.*
*3) Show **working notes** wherever necessary.*

SECTION – A

(2 marks each) **(2×10=20)**

1. Answer **any ten** questions from the following :
   a) What is time value of money ?
   b) What do you mean by 'Trading on equity' ?
   c) State the accept and reject rule of IRR method.
   d) What is implicit cost of capital ?
   e) What are the mutually exclusive projects ?
   f) What is project evaluation ?
   g) What is dividend payout ratio ?
   h) What is compounding ?
   i) What is stock dividend ?
   j) What is zero coupon bonds ?
   k) What do you understand by optimum capital structure ?
   l) What is bird-in hand argument in dividend policy ?

P.T.O.

SECTION – B

(8 marks each) **(8×5=40)**

Answer **any five** questions.

2. A company has 10% perpetual debt of Rs. 1,00,000. The tax rate is 35%. Determine the cost of capital (before tax and after tax) assuming the debt is issued.

   a) at par

   b) 10 % discount

   c) 10 % premium

3. Calculate weighted average cost of capital from the following :

Source	Amount	Before tax Cost
Equity share capital	6,00,000	17 %
Retained earnings	4,00,000	16 %
Preference share capital	3,00,000	15 %
Debentures	7,00,000	14 %

   Assume tax rate at 50 %.

4. Explain the capital budgeting process.

5. Explain the various cost concepts.

6. Explain the different forms of dividend policy of a concern.

7. Explain the significance of financial decisions.

8. Determine the price per share as per Walter and Gordon's model.

   IRR – 25 %

   Cost of equity – 12 %

   EPS – Rs. 10

   DPS – Rs. 5

SECTION – C

(20 marks each) **(20×3=60)**

9. Explain the major financial decisions. How do they involve risk-return trade off ?

OR

What is meant by cost of capital ? Explain the various concepts of cost of capital.

10. Critically examine the NI and NOI approach to capital structure decisions.

OR

Explain the internal and external factors influencing the dividend policy.

11. A project will cost Rs. 10,00,000 and will have a life of 5 years and no salvage value. Assume 50 % tax rate and depreciation under reducing balance method at 20%.

The estimated cash inflows before depreciation and tax from the proposed investment are as follows :

Year	**CFBDT** (₹)
1	3,20,000
2	3,50,000
3	3,90,000
4	5,00,000
5	5,40,000

Evaluate the project according to

1. NPV at 12%
2. ARR
3. Payback period
4. Profitability Index

Note : PV factor of Re. 1 at 12 % discount rate for 1 to 5 years is 0.893, 0.797, 0.712, 0.636 and 0.567.