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BBABMC 260/BBMBMC 260

IV Semester B.B.A./B.B.M. Degree Examination, April/May 2019

(Credit Based Semester Scheme)

(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

1. Answer **any ten** questions from the following, **2** marks each : **(10 × 2 = 20)**

- (a) What are mutually exclusive projects?
- (b) What is time value of money?
- (c) Give the accept and reject rule of IRR method.
- (d) What is capital rationing?
- (e) What is marginal cost of capital?
- (f) What do you mean by financial structure?
- (g) What is arbitrage process?
- (h) What is stock dividend?
- (i) What is floatation cost?
- (j) What is project evaluation?
- (k) What is dividend payout ratio?
- (l) What is discounted payback period?

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SECTION - B

Answer **any five** questions, **8** marks each :

(5 × 8 = 40)

2. A company issues 10% irredeemable debentures of ₹ 20,00,000. The tax rate is 40%. Calculate the cost of debenture before as well as after tax if debentures are issued

(a) at par

(b) 10% discount

(c) 10% premium

3. Calculate Weighted Average Cost of Capital (WACC) from the following :

Source	Amount (₹)	Before tax cost
Equity share capital	5,00,000	20%
Retained earnings	2,50,000	16%
Preference share capital	1,25,000	13%
Debentures	3,75,000	12%

Assume tax rate at 50%.

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

Earnings per share - ₹ 20

Internal Rate of Return - 20%

Cost of Equity - 16%

Dividend per share ₹ 10

5. What is stability of dividends? Explain the different forms of stability of dividends.
6. What is wealth maximization? Explain the merits of wealth maximization.
7. Write a brief note on NI approach of capital structure.
8. Explain the significance of Capital Budgeting decision.



SECTION - C

Answer the following questions, 20 marks each :

(3 × 20 = 60)

9. (a) What is financial management? Explain the scope of financial management.

Or

(b) Explain the M-M Hypothesis of capital structure.

10. (a) What is cost of capital? Explain the significance and various concepts of cost of capital.

Or

(b) Explain the factors influencing the dividend policy.

11. The company is considering an investment proposal to purchase a machine costing ₹ 2,50,000. The machine has expected life of 5 years. The Company's tax rate is 40%. The firm uses straight line method of depreciation. The estimated cash flows Before depreciation and Tax are as follows :

Year	CFBDT (₹)
1	1,10,000
2	1,20,000
3	1,40,000
4	1,50,000
5	2,00,000

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Calculate :

- (a) Payback period
- (b) Average rate of return
- (c) Net present value at 10%
- (d) Profitability index at 10%

Note :

Year	1	2	3	4	5
PV Factor of Re. 1 at 10%	0.909	0.826	0.751	0.683	0.621