Reg. No.

BBMBMC 260

Credit Based Fourth Semester B.B.M. Degree Examination,
April/May 2014
(2012 Scheme)
FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time : 3 Hours | Max. Marks : 120

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

SECTION – A **(2×10=20)**

(**2** marks **each**)

1. Answer **any ten** questions from the following :

a) What is time value of money ?

b) What do you mean by conventional cash flow ?

c) State the accept/reject rule under IRR method.

d) What is coupon rate ?

e) What is arbitrage process ?

f) What is dividend payout ratio ?

g) What is implicit cost of capital ?

h) What do you mean by payback period ?

i) What is transaction cost ?

j) What are mutually exclusive projects ?

k) What is capital rationing ?

l) What is bonus share ?

P.T.O.

SECTION – B
(8 marks each)

Answer **any five** questions : **(8×5=40)**

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

Source	Amount (₹)	Before tax cost
Equity shares	5,00,000	19%
Retained Earnings	2,00,000	18%
Preference shares	2,00,000	15%
Debentures	1,00,000	12%

Tax rate is 50%

3. From the following, determine price per share as per Walter and Gordon's models.
   a) Internal rate of return = 15%
   b) Cost of capital = 10%
   c) Earnings per share – ₹ 10
   d) Dividend per share – ₹ 6

4. For varying levels of debt-equity mix, the estimates of the cost of equity and cost of debt (after tax) are given below.

Debt as % of total capital employed	Cost of debt (%)	Cost of equity (%)
0	6	14
10	6	14
20	7	15
40	7	16
50	8	18
60	9	20

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

5. Explain the capital budgeting process.

6. What is undercapitalization ? Explain the causes for and effects of under capitalization.

7. Explain the major financial decisions in brief.

8. What is stable dividend policy ? Explain the forms of stable dividend policy.

SECTION – C (20×3=60)

(20 marks each)

9. Explain the superiority of wealth maximisation objective over profit maximisation as a criterion for evaluation of financial decisions.

OR

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

10. Explain the factors that influence capital structure of a firm.

OR

Explain the assumptions, theory and limitations of Walter's dividend model.

11. The following details are available about a project proposal.

Cost of the project	:	₹ 10,00,000
Life of the project	:	5 years
Salvage value	:	Nil
Tax rate	:	50%
Method of depreciation	:	Straight line method

Year	**CFBT (₹) (Cash inflows Before tax)**
1	3,00,000
2	4,60,000
3	6,20,000
4	6,80,000
5	8,00,000

Compute:

a) Payback period

b) Average rate of return

c) Net present value at 10%

d) Profitability index at 10%

e) Discounted payback period.

Note:

Year	:	1	2	3	4	5
PV factor at 10%	:	0.909	0.826	0.751	0.683	0.621