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

**BBMBMC 260**

**Credit Based Fourth Semester B.B.M. Degree Examination, April/May 2015**
**(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** marks **each**) **(2×10=20)**

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

a) What do you mean by risk return trade off ?

b) What is financial forecasting ?

c) What is annuity ?

d) What is time value of money ?

e) What is capitalisation ?

f) What is compounding ?

g) What is project evaluation ?

h) What is arbitrage process ?

i) What is financial structure ?

j) What is zero coupon bonds ?

k) What is cut-off rate ?

l) What is pay back period ?

P.T.O.

SECTION – B (**8** marks **each**) **(8×5=40)**

Answer **any five** questions.

2. A Co. had an EPS of Rs. 25. Its rate of return was 15%. While the cost of equity was 14%, using Gordon's dividend model, calculate the market price of equity share of the company, if dividend payout ratio is

   a) 25% b) 30% c) 40%

3. The details of a company's capital structure are as follows.

| **Type of Capital** | **Book value** ₹ | **Market value** ₹ | **Specific cost** |
|---|---|---|---|
| Equity share capital | 1,00,000 | 1,80,000 | 15% |
| Preference share capital | 50,000 | 1,20,000 | 12% |
| Debentures | 60,000 | 1,00,000 | 6% |
| Retained earnings | 40,000 | – | 15% |
| | **2,50,000** | **4,00,000** | |

   Calculate the weighted average cost of capital using

   1) Book value as weights

   2) Market value as weights.

4. A Ltd. has a share capital of Rs. 1,00,000 divided into shares of Rs. 10 each. It has a major expansion programme requiring an investment of another Rs. 50,000. The management is considering the following alternatives for raising this amount.

   1) Issue of 5,000 equity shares of Rs. 10 each.

   2) Issue of 5,000, 12% preference shares of Rs. 10 each.

   3) Issue of 10% debentures of Rs. 50,000.

   The company's EBIT Rs. 40,000, you are required to calculate EPS under each plan.

5. Explain the net income approach to capital structure.

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

7. Explain the capital budgeting process.

8. Describe the importance of financial decisions.

SECTION – C (**20** marks **each**) (20×3=60)

9. Define cost of capital. Explain various cost concepts and their significance.

OR

Explain the role of finance manager.

10. Define capital structure. Explain the factors influencing capital structure.

OR

Critically evaluate Walter's model of dividend policy with example.

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 : P/V 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.