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

BBMBMC 260

Credit Based IV Semester B.B.M. Degree Examination, May/June 2016
(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 is time value of money ?
   - b) What is arbitrage process ?
   - c) Write the accept-reject rule for PI.
   - d) What is discounted payback period ?
   - e) What is optimum capital structure ?
   - f) What is floatation cost ?
   - g) What is capital rationing ?
   - h) What is terminal cashflow ?
   - i) What is meant by stable dividend policy ?
   - j) What is implicit cost of capital ?
   - k) What are mutually exclusive projects ?
   - l) What is payout ratio ?

P.T.O.

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

Answer **any five** questions :

2. 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 capital	3,00,000	15%
Debenture	7,00,000	14%

Assume tax rate at 50%.

3. From the following determine price per share as per Walter and Gordon's models.

   Cost of capital – 15%

   Internal rate of return – 20%

   Earnings per share – ₹ 10

   Dividend per share – ₹ 4

4. Explain the functions of controller.

5. Explain the capital budgeting process.

6. Explain in brief NI approach of capital structure.

7. What is stock dividend ? Explain the advantages of stock dividend.

8. A company issues 10% irredeemable debentures of ₹ 10,00,000. Calculate cost of debt before as well as after tax, if debentures are issued

   a) At par

   b) 10% discount

   c) 10% premium.

SECTION – C

(20 Marks each) **(20×3=60)**

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

OR

Define cost of capital. Explain the significance and concepts of cost of capital.

10. What is capital structure ? Explain the factors that influence the capital structure of a company.

OR

Explain the Modigliani and Miller Hypothesis on dividend irrelevance.

11. An investment proposal will cost ₹ 4,00,000 and will have a life of 5 years and no salvage value. Assume straight line method of depreciation and 50% tax rate.

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

Year	**CFBT (₹)**
1	1,00,000
2	1,20,000
3	1,60,000
4	2,00,000
5	1,80,000

Compute the following :

1) Payback period
2) Average Rate of return
3) NPV at 12%.
4) Profitability index at 12%

Note : P\V factors of Re. 1 at 12% discounting rate from 1 to 5 years is :

0.893, 0.797, 0.712, 0.636 and 0.567.