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

BBMBMC 260

Credit Based IV Semester B.B.M. Degree Examination, April/May 2017
(2012 Scheme)
FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time : 3 Hours   Max. Marks : 120

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

SECTION – A

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

   a) What do you mean by time value of money ?

   b) What is risk return trade off ?

   c) What is payback period ?

   d) Write the accept reject rule for IRR.

   e) What is floatation cost ?

   f) What is financial structure ?

   g) What is meant by stable dividend policy ?

   h) What is future cost of capital ?

   i) What is arbitrage process ?

   j) What are mutually exclusive projects ?

   k) What is optimum capital structure ?

   l) What is capital rationing ?

P.T.O.

SECTION – B

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

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

Source	**Amount (₹)**	**Before tax cost (%)**
Equity Share Capital	7,00,000	18
Retained earnings	2,00,000	17
Preference Share Capital	3,00,000	16
Debenture	8,00,000	12

Assume tax rate at 40%.

3. The earnings per share of the company are ₹ 16. The capitalisation rate is 10%. The rate of return is 12.5%. The company is considering the payout of 25%, 50% and 75%. Which of these would maximise the wealth of shareholders if Walter's dividend model is used ?

4. A company issued ₹ 10,00,000, 12% Debentures of ₹ 100 each redeemable at a premium of 5% after 5 years. Calculate cost of debt if debentures are issued at 10% discount with 5% floatation cost. Assume tax rate at 40%.

5. Explain the capital budgeting process.

6. Explain the NI approach of Capital Structure.

7. What is bonus share ? Explain the advantages of bonus share.

8. Explain the major financial decisions.

SECTION – C

Answer the following questions. **20** marks **each** : **(20×3=60)**

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

OR

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

10. Explain the internal and external factors that influence dividend policy.

OR

Explain M-M hypothesis on capital structure.

11. An investment proposal will cost ₹ 5,00,000 and will have a life of 5 years and no salvage value. Assume straight line method of depreciation and 40% tax rate.

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

Year	CFBT (₹)
1	1,40,000
2	1,60,000
3	1,80,000
4	2,20,000
5	2,00,000

Compute the following :

a) Payback period

b) Average Rate of return

c) NPV at 10%

d) PI at 10%

e) Discounted payback period.

Note : PV factor of Re. 1 at 10% discounting rate from 1 to 5 years is; 0.909, 0.826, 0.751, 0.683, 0.621
