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**BBABMC 260/BBMBMC 260**

**Credit Based IV Semester B.B.A./B.B.M. Examination, September 2022  
(2012 Scheme)**

**FUNDAMENTALS OF FINANCIAL MANAGEMENT**

Time : 3 Hours

Max. Marks : 120

**Instruction :** Show working notes *wherever* necessary.

**SECTION – A  
(2 Marks each)**

1. Answer **any ten** questions from the following : **(10×2=20)**
- a) What is time value of money ?
  - b) Write the accept reject rule of PBP.
  - c) What is implicit cost of capital ?
  - d) What is floatation cost ?
  - e) What is capital rationing ?
  - f) What is arbitrage process ?
  - g) What are mutually exclusive projects ?
  - h) What is pay out ratio ?
  - i) What is optimum capital structure ?
  - j) What do you mean by stock dividend ?
  - k) What is capital budgeting ?
  - l) What is risk return trade off ?

**SECTION – B  
(8 Marks each)**

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

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

<b>Source</b>	<b>Amount (₹)</b>	<b>Before tax cost</b>
Equity share capital	6,00,000	17%
Retained Earnings	2,00,000	18%
Preference Capital	5,00,000	15%
Debentures	7,00,000	12%

Tax rate is 50%.

P.T.O.



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 – Rs. 6.
4. A company issued perpetual 10% debentures of Rs. 20,00,000. The tax rate is 40%. Calculate the cost of debentures before as well as after tax if debentures are issued
  - a) At par
  - b) 10% discount
  - c) 10% premium.
5. Explain the scope of financial management under modern approach.
6. Explain the capital budgeting process.
7. Write a brief note on NI approach of capital structure.
8. What is stable dividend policy ? Explain the forms of stable dividend policy.

**SECTION – C**  
**(20 Marks each)**

Answer the following questions :

**(3×20=60)**

9. Explain the objectives of financial management.

OR

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

10. What is capital structure ? Explain the factors influencing capital structure.

OR

Explain MM hypothesis of capital structure.



11. The company is considering an investment proposal to purchase a machine costing Rs. 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 :

<b>Year</b>	<b>CFBDT</b>
1	1,10,000
2	1,20,000
3	1,40,000
4	1,50,000
5	2,00,000

**Calculate :**

- a) Pay Back period
- b) Average rate of return
- c) NPV at 10%
- d) Profitability index at 10%.

**Note :**

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

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