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BBABMC 285

Choice Based Credit System IV Semester B.B.A. Degree
Examination, September 2022
(2019 – 20 Batch Onwards)
FUNDAMENTALS OF FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 80

Instruction : Show working notes wherever necessary.

SECTION – A (4 marks each)

Answer **any four** of the followings.

(4×4=16)

1. What is specific cost and composite cost ?
2. State the accept reject rule for NPV, ARR and PBP.
3. Write a note on risk return trade off.
4. A small scale industrial unit was selling its output at Rs. 10 per unit with a variable cost of Rs. 4 per unit and a fixed cost of Rs. 10,000. Calculate its operating leverage assuming an output of 5000 units.
5. Differentiate between independent and mutually exclusive projects.
6. What is the importance of cost of capital ?
7. What are the different forms of dividend ?

SECTION – B

Answer **any four** of the followings.

(4×8=32)

8. 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%
Debentures	7,00,000	14%

Assume tax rate at 50%.

P.T.O.



9. 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 – Rs. 10
 - d) Dividend per share – Rs. 6
10. A company issues 10% debentures of Rs. 100 each redeemable at the end of 10 years. The debentures are issued at a discount of 5% and flotation costs are 10%. Find out cost of capital of debentures. Given that the firm's tax rate is 50%.
11. Explain the capital budgeting process.
12. What is stock dividend ? Explain its advantages.
13. Explain the scope of financial management under modern approach.
14. What is time value of money ? Explain the significance of time value of money.

SECTION – C

Answer **any two** of the followings.

(2×16=32)

15. Define cost of capital. Explain the concepts of cost of capital.
16. Explain the factors influencing capital structure of the company.
17. An investment proposal will cost Rs. 5,00,000 and will have a life 5 years and no salvage value. Assume straight line method of depreciation and 40% tax rate. The estimated cash flows before tax from the proposed investment are as follows :

Year	Cash Flows Before Tax (CFBT) Rs.
1	1,40,000
2	1,60,000
3	1,80,000
4	2,20,000
5	2,00,000



Compute the following :

- a) Pay back period
- b) Average rate of return
- c) NPV at 10%
- d) PI at 10%

Note :

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

18. XYZ Ltd. presents the following information and you are required to calculate :

- a) Operating leverage
- b) Financial leverage
- c) Combined leverage
- d) EPS

The company's capital structure comprises of

- * Equity shares of Rs. 100 each Rs. 5,00,000
- * 15% debentures of Rs. 100 each Rs. 10,00,000

Operational details :

Selling price Rs. 15/unit

Variable cost Rs. 8/unit

Fixed cost Rs. 2,00,000

Tax rate is 35%

Assume output is 1,00,000 units, 1,50,000 units and 3,00,000 units.
