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Total Number of Pages: 02

Course: MBA
Sub_Code: 18MBA201

2nd Semester Regular/Back Examination: 2023-24

SUBJECT: CORPORATE FINANCE

BRANCH(S): BA, BM, FM, FM&HRM, GM, HRM, IB, LSCM, MBA, MBA(A&M), MBA(M&F), MM, RM

Time: 3 Hour

Max Marks: 100

Q.Code: P329

Answer Question No.1 (Part-1) which is compulsory, any eight from Part-II and any two from Part-III.

The figures in the right hand margin indicate marks.

Part-I

Q1 Answer the following questions: (2 x 10)

- Do you consider that agency problem hinders corporate wealth maximization? Justify.
- Why is it necessary to calculate the present value of an amount expected to be received in future?
- Why should you hold two or more financial assets than holding simply one?
- Which one of the two is more reliable: NPV or Profitability Index? Justify.
- What are managerial options with respect to investment in a project?
- What is flotation cost? How is it treated while computing the cost of debt or equity share capital?
- Which five factors influence the size of the current assets in a firm?
- Name some short-term marketable securities and discuss their importance in corporate finance.
- What are the features of a sound capital structure?
- What do you mean by share split and reverse split? Why should a company resort to this?

Part-II

Q2 Only Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve) (6 x 8)

- The capital structure of a company has the following components:
10,000 Equity shares of Rs. 100 each
10 %, 1000 Preference shares of Rs. 100 each
12 %, 9000 Debentures of Rs. 100 each
The current market price of equity share is Rs. 140. The expected dividend is Rs. 20 per share which is to grow at 5 % pa. Tax rate is 30 %. Find the weighted average cost of capital.
- A project has the following cash flow. The discount rate is 10 %. Find the NPV. Do you think that IRR would be a suitable evaluation technique in this respect?

Year	Amount (Rs.)
1	(-) 200
2	240
3	(-) 70
4	290

- c) How do you find the future value of an amount invested today? Develop an algebraic formula for the same.
- d) The following are the figures on the basis of which compute the length of gross working capital cycle and the cash conversion period:
Raw material inventory: Rs. 8 lakhs; raw material consumption: Rs. 40 lakhs; work in progress inventory: Rs. 3.6 lakhs; cost of production: Rs. 54 lakhs; finished goods inventory: Rs. 6.5 lakhs; cost of goods sold Rs. 52 lakhs; credit sales Rs. 49.5 lakhs; Debtors: Rs. 9 lakhs; Creditors: Rs. 5 lakhs; and Credit purchases: Rs. 45 lakhs.
- e) Name some common instruments for cash collection. What are the ways in which cash collection is accelerated?
- f) A net 30 term accounts for a sale of Rs. 20, 00,000, there are 20 % of the customers who do not make payments in time. Find out the average collection period and the average size of receivables.
- g) Explain the procedure adopted for selecting a customer to whom credit facilities are provided.
- h) What is factoring? Is there any establishment who takes care of this? How is it different from forfaiting?
- i) What is stability of dividend payment? Explain its significance.
- j) A company earns 12 % against a required rate of return of 10 %. The EPS is Rs. 8 with a dividend payout ratio of 50 %. Find the value of its share using
a. Walter's Model
b. Gordon's Model
- k) A company has 5000 shares of Rs. 100 each. It goes for capital restructuring and issues debentures for Rs. 200,000 to buy back the shares. If the interest rate of debentures is 10 % with no tax, find (a) the leverage ratio after restructuring and (b) EPS with an EBIT of Rs 120,000/-.
- l) Distinguish between wealth maximization and profit maximization principles of a firm.

Part-III

Only Long Answer Type Questions (Answer Any Two out of Four)

- Q3** Current assets are financed through a mix of short term and long term funds. Discuss the statement and explain various approaches in this context. **(16)**
- Q4** Explain the different types of financial decisions that form the subject matter of corporate financial management. **(16)**
- Q5** Explain the various DCF and non-DCF methods of capital investment appraisal. In which type of capital investment proposal, the profit criterion is not considered? **(16)**
- Q6** Compute the degree of total leverage given the following data: **(16)**
Quantity sold: 10,000 units
Variable cost per unit: Rs. 100
Selling price per unit: Rs. 500
Fixed Expenses: Rs10 lakhs
Number of Equity shares: 1,00,000
Debt: Rs 10 lakhs @ 20% interest
10 % Preference shares: 10,000 shares of Rs. 100 each
Tax Rate: 50 %
Interpret the result.