S.Y. BFM - SEM IV - Reg/ATKT - Mar'20

C.F.
7.3.20

Corporate Finance :: SYBFM:: Sem 4

TIME: 2 ½ hours **MARKS: 75**

Note: All questions are compulsory, subject to internal choice.
Figures to the right indicate full marks.
Use of simple calculator allowed.

Q1.A State whether the following statements are True or False (Any 8) **(8)**

1. Capitalisation is generally found to be of three types: Normal, Over and Under.
2. At optimal capital structure, the cost of capital is the least.
3. Variable cost per unit varies with the increase in the volume of output.
4. Margin of safety is the difference between maximum sales and breakeven sales.
5. The ratio of debt and equity must be equal.
6. P/E ratio stands for preference equity.
7. Opportunity cost of capital is the expected return that is foregone by investing in a project rather than in comparable investment alternative.
8. The lessee enjoys the salvage value of the asset.
9. Share capital is a long term source of finance.
10. Securitization is a process wherein a firm sells its receivable to another party to raise funds.

Q1.B. Match the columns: (Any 7) **(7)**

Column A	Column B
1. Assets	a. Highest
2. Replacement to equipment	b. Capital budgeting decision
3. Investment in inventory	c. Lowest
4. Cost of debt	d. Working capital decision
5. Cost of equity	e. Capital bearing risk ÷ capital not bearing risk
6. capital gearing ratio	f. Liabilities + equity
7. Modern method	g. Mobilization of funds
8. Capital budgeting	h. Capital structure planning
	i. Deployment of funds
	j. Relevance theory of capital structure

Q2.A. Jaggu Co Ltd has the following capital structure as on 31st March, 2002 **(15)**

Particulars	Rs
Equity shares (50,000shares of Rs 100 each)	50,00,000
9% preference shares	20,00,000
10% Debentures	30,00,000
Total	1,00,00,000

The equity shares of the company are quoted at Rs 102 and the company is expected to declare a dividend of Rs 9 per share for the year. Assume the tax rate applicable to the company to be 50%.

Required: (a) Compute the Weighted Average Cost of Capital based on existing capital structure.

(b) Assuming that the company can rise additional term loan at 12% for Rs 50 lakhs to finance an expansion, calculate the revised Weighted Average Cost of Capital.

The company's assessment is that it will be in a position to increase the dividend from Rs 9 per share to Rs 10 per share, but the business risk associated with the new financing may bring down the market price from Rs 102 to Rs 95 per share. State clearly the assumptions you make.

OR

Q2.B. One-up Ltd has equity share capital of Rs 5,00,000 divided into shares of Rs 100 each. **(15)**
It wishes to raise further Rs 3,00,000 for expansion-cum modernization scheme. The company plans the following financing alternatives:
Plan A: By issuing equity share only
Plan B: Rs 1,00,000 by issuing equity shares and Rs 2,00,000 through debentures or term loan @ 10% p.a.
Plan C: By raising term loan only at 10% p.a.
Plan D: Rs 1,00,000 by issuing equity shares and Rs 2,00,000 by issuing 8% preference shares.
You are required to suggest the best alternative giving your comment assuming that the EBIT after expansion is Rs 1,50,000 and corporate tax is 35% .

Q3.A. The sales and profit during two years were as given below: **(15)**

Year	Sales (Rs)	Profits (Rs)
2001	3,00,000	40,000
2002	3,40,000	50,000

You are required:

i. P.V. ratio
ii. BEP
iii. Sales to reach of profit of Rs 40,000
iv. Profit made when sales are Rs 4,50,000
v. Margin of safety at a profit of Rs 75,000

OR

Q3.B. Explain components of cost of capital. **(8)**
Q3.C. Explain the types of Preference share. **(7)**

Q4.A. Expert ltd is considering the purchase of the following two machines. Which machine would you advice the management to buy using: **(15)**
(i) Payback period (ii) Payback profitability (iii) Average rate of return

Particulars	Machine 1	Machine 2
Cost of machine	2,00,000	2,70,000
Life of machine	5 years	6 years

Net profit before depreciation and tax

Year	Machine 1	Machine 2
1	75,000	85,000
2	70,000	80,000
3	68,000	77,000
4	65,000	75,000
5	60,000	70,000
6	-	62,000
Tax rate	30%	30%

OR

Q4.B A company is considering two mutually exclusive projects. **(15)**
The finance director considers that the project with higher NPV should be chosen, whereas the managing director thinks that one with higher IRR should be considered. Both the projects have got a useful life of 5 years and the cost of capital is 10%. The initial outlay is Rs 5 lakhs.

The future cash inflows from project X and Y are as under:

Year	Project X	Project Y	PV factor at 10%	PV factor at 20%
1	1,35,000	1,80,000	0.91	0.83
2	1,80,000	1,70,000	0.83	0.69
3	1,90,000	1,40,000	0.75	0.58
4	1,75,000	1,14,000	0.68	0.48
5	1,20,000	1,13,000	0.62	0.41

You are required to evaluate the projects based on NPV and IRR taking 10% and 20% discounting factors.

Q5.A. Debenture as a source of finance. **(7)**

Q5.B. Distinguish between Lease Financing and Hire Purchase financing **(8)**

OR

Q5.C Short Notes: (Any 3) **(15)**

1. Types of risk
2. Disadvantages of marginal costing
3. Over-capitalisation
4. Equity shares
5. Role of commercial banks in financing corporate sector