Medical Exam - Jan'2020

M. K. SANGHVI COLLEGE OF COMMERCE & ECONOMICS

Date:	Time: 2 ½ hours
Subject: Corporate Finance	Semester: III
Class: SY.BMS	Marks: 75

25.1.20

Note:-

1. Q.1 is compulsory
2. Q.2 to Q.5 having internal options
3. Figures to right indicate full marks
4. Simple calculator is allowed
5. State your assumptions clearly.

Q.1 A:- Choose the correct alternative:- (Any 8 out of 10) (08 marks)

1. GDR means ________

a. Global depository receipt b. German depository receipt

c. Global depression recession d. None of the above

2. BFS corporation, equity shares has a beta = 1.2. The risk free rate is 6% and the market return is 11%. Cost of equity using CAPM is _____________

a. 12% b. 21% c. 12.2% d. 21.8%

3. A proposal is NOT a capital budgeting proposal if it _____________

a. Is related to fixed assets b. brings long-term benefits

c. Brings short-term benefits only d. has very large investment

4. If I deposit Rs. 1000 for 10 years and the rate is 10% compounded semi-annually, the future value of deposit will be ____________

a. Rs. 1593.74 b. Rs. 2.59374 c. Rs. 2653.29 d. Rs. 1893.74

5. If a firm has no debt, which one is correct?

a. OL is zero b. FL is zero c. CL is zero d. None of the above

6. Higher OL is related to the use of higher___________

a. Debt b. Equity c. Fixed cost d. Variable cost

7. Which of the following sources of funds has an implicit cost of capital?

a. Equity share capital b. Preference share capital

c. Debentures d. Retained earnings

8. Which of the following is not a feature of an optimal capital structure.

a. Profitability b. Liquidity c. Flexibility d. Control

9. Shareholders wealth in a firm is represented by ________

a. The number of people employed in the firm

b. The book value of the firm's assets less the book value of its liability

c. The amount of salary paid to its employees

d. The market price per share of the firm's common stock

10. For a constant EBIT, if the debt level is further increased then __________

a. EPS will always increase b. EPS may increase

c. EPS will never increase d. None of the above.

Q.1 B:- True or False: (Any 7 out of 10) (07 marks)

1. Corporate finance is used for expansion and diversification.

2. WACC is the overall cost of capital.

3. NPV does not take into account the time value of money.

4. The main rational behind FDI is participate in the management of the foreign firm.

5. Financial breakeven level occurs when EBIT is zero.

6. Operating leverage directly impacts the EBIT.

7. Cost of debt is same as the rate of interest.

8. Trading on equity results in decreasing EPS for the shareholders.

9. EBIT-Interest=EBT.

10. Debenture hodlers are the owners of the company.

Q.2 A:- Calculate the EPS from the following financial plans:- (08 marks)

Particulars:	J	II
Output (units)	1,25,000	7,50,000
Fixed cost	2,50,000	10,00,000
Variable cost per unit	5	7.50
Selling price per unit	7.50	10
Interest expense	25,000	NIL
No. of equity shares	50,000	80,000

Q.2 B:- The following details of 'A' Ltd for year ended 31/03/2019: (07 marks)

Operating leverage	3:1
Financial leverage	2:1
Interest charges	20,00,000
Tax	50%
Variable cost to sales	60%

Prepare the income statement of the company.

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OR

Q.2 'SQ' Ltd estimates the cost of equity and debt components of its capital for different levels of debt equity mix as follows:- (15 marks)

Debt as % to total capital	Cost of equity	Cost of debt (Before tax)
0%	15%	12%
15%	18%	14%
25%	20%	15%
40%	20%	18%
50%	25%	20%
60%	28%	25%

Suggest the best Debt-equity mix for the company. Tax rate 50%.

Q.3 A:- X invested Rs. 2,40,000 at annual rate of interest of 10 percent. What is the amount after 3 years if the compounding is done? (08 marks)

1. Annually
2. semi-annually

Q.3 B:- (07 marks)

	Boom	Normal	Recession
Probability of occurrence	0.3	0.4	0.3
Rate of return on Stock A (%)	20.0	30.0	50.0

Calculate the expected rate of return and standard deviation of return for stock A.

OR

Q.3 A project requires an initial cash outflow of Rs. 10,00,000. It generates cash inflow as follows:- (15 marks)

Year end	1	2	3	4	5
Cash inflow (Rs lakhs)	6	3	2	5	5

Its cost of capital is 10% determine (a) payback period, (b) net present value, (c) discounted payback period, (d) profitability index.

Q.4 A:- Calculate the internal rate of return of an investment of Rs. 1,36,000 which yields the following cash inflows:- (08 marks)

Year	Cash inflows (in Rs.)
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

Use 10% and 12% discounting factor.

Q.4 B:- Risk and Return of portfolio – Illustrate with diagram. (07 marks)

OR

Q.4. A holds the following portfolio: - (15 marks)

Share/Bond	Beta Rs.	Initial price Rs.	Dividends Rs.	Market price at the end of the year Rs.
Epsilon Ltd.	0.8	25	2	50
Sigma Ltd.	0.7	35	2	60
Omega Ltd.	0.5	45	2	135
GOI bonds	0.99	1,000	140	1,005

Calculate:-

i. The expected rate of return on his portfolio using capital asset pricing method (CAPM_

ii. The average return of his portfolio.
Risk-free return is 14%.

Q.5 Write short note:- (Any 3 out of 5) (15 marks)

a. Types of preference shares

b. Over-capitalisation

c. Managerial functions

d. ADR

e. Commercial paper.

OR

Q.5. Write note on Factoring. (15 marks)