SYBFM sem IV Reg. Exam April-2023

MALINI KISHOR SANGHVI COLLEGE OF COMMERCE AND ECONOMICS

SYBFM SEM 4: 'CORPORATE FINANCE'

TIME: 2 ½ hours 17/4/23 **MARKS: 75**

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

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Q 1 A. Choose the right option and rewrite the sentence: (Any 8) *(8)*

1. What is the most appropriate goal of the firm ?
(a) Shareholder wealth maximization (b) Profit maximization (c) Stakeholder maximization (d) EPS maximization

2. ____________ is a situation in which actual profits of a Company are not sufficient to pay interest on debt and to pay dividend on shares.
(a) Undercapitalization (b) Overcapitalization (c) Profitability (d) Marketing research

3. In weighted average cost of capital, the term "weight" refers to _______
(a) rate of interest (b) proportion of each source of capital raised
(c) portion of total capital raised by the firm (d) income tax consideration

4. Dividend paid to stockholders are: ________________.
(a) tax deductible to the firm (b) tax free (c) double taxation
(d) not tax deductible to the firm

5. At BEP, both profit and loss is __________
(a) profit exceeds loss (b) zero (c) positive (d) negative

6. Marginal costing helps in _________ making
(a) profit (b) business (c) taxation (d) decision

7. The excess of sales over and above BEP is ________
(a) contribution (b) MOS (c) fixed cost (d) none

8. Time Value of Money is based on the principle of ____________
(a) A stich in time saves nine (b) A bird in hand; is worth two in a bush
(c)As you sow, so shall you reap (d) Hard work pays in the long run

9. ________ is an example of traditional method of capital budgeting
(a)Net present value (b)Internal rate of return (c)Accounting rate of return (d) Profitability index

10. Receivable management deals with ____________ management.
(a) Creditors (b) Top level management (c) Debtors
(d) Lower level management

Q 1 B True or False. (Any 7) *(7)*

1. The duty of a finance manager is to determine the marketing strategy to remove a new product.
2. Risk and return always go hand in hand.
3. Fixed cost per unit remains constant.
4. Variable cost per unit varies with the increase in the volume of output.
5. The Break-even Chart is also called as Cost Volume Profit Graph.
6. The ratio of debt and equity must be equal.
7. P/E stands for Preference Equity.
8. IRR is easy to calculate.

9. Capital Budgeting refers to mix of a company debt and equity.
10. Hire purchase price includes interest.

Q 2 A. Annic Ltd. has the following capital structure: *(15)*

Particulars	Amount (Rs)
Ordinary shares (4,00,000 shares)	80,00,000
6% Preference shares	20,00,000
8% Debentures	60,00,000
	1,60,00,000

The shares of the company are presently selling at Rs. 20 per share. It is expected that the company will pay next year dividend of Rs 2 per share which will grow @ 7% forever. Assume tax rate of 35%. You are required to:

i. Compute the weighted average cost of capital based on existing capital structure.
ii. If the company raises an additional Rs 40 lakhs debt by issuing 10% debentures, the expected dividend at the year-end will be Rs 3, the market price per share will fall to Rs 15 per share, the growth rate remaining unchanged. Calculate the new weighted average cost of capital.

OR

Q 2 B. You are required to determine the optimal Debt-Equity mix for the company by calculating composite cost of capital. *(7)*

Debt as % of Total Capital Employed	Cost of Debt %	Cost of equity %
0	6.0	12.0
10	6.0	12.0
20	6.0	12.5
30	6.5	13.0
40	7.0	14.0
50	7.5	17.0
60	8.0	21.0

Q 2 C. MIG Ltd. planning an expansion programme which will require Rs 30 lakhs and can in the funded through one of the three following options:

i. Issue 30,000 equity shares of Rs 100 each at par.
ii. Raise loans at 15% interest.
iii. Issue preference shares at 12%.

Present paid up capital is Rs. 60 lakhs and average annual EBIT is Rs 15 lakhs. Assume Income Tax rate at 50%, determine the Earnings Per Share (EPS) in each alternative giving the highest return to equity shareholders. *(8)*

Q 3 A. The following figures are available from the records of CAE Enterprises as at 31st March: *(15)*

YEAR	SALES (Rs)	PROFIT (Rs)
2006	6,00,000	1,00,000
2007	8,00,000	1,50,000

From the above calculate the following:

(i) P/V ratio **(ii)** Break-even Sales **(iii)** Sales to earn a profit of Rs. 2,00,000
(iv) Desired profit when Sales are Rs. 3,00,000 **(v)** Margin of safety of 2007.

OR

Q 3 B. From the following data calculate the following: *(15)*

i. P/V ratio
ii. Break-even point (both in units & in Rupees)

iii. MOS when profit is Rs. 79,000

iv. Calculate desired Sales if the company targeted profit is Rs. 1,00,000

Fixed costs for the year	Rs. 1,000
Variable cost per unit for a single product	Rs. 20
Estimated sales for the period are	800 units
Each unit sells at	Rs. 120

Q 4 A. Gati Co. Ltd. is considering the following two investment proposals. *(15)*

Year	Project A (Rs)	Project B (Rs)
1	10,000	50,000
2	30,000	65,000
3	45,000	85,000
4	65,000	50,000
5	45,000	35,000
CASH OUTLAY:		
	1,20,000	1,70,000

Calculate the (i) Pay Back Period
(ii) Net Present Value using 15% discount rate
(iii) Profitability Index, for two alternatives.
Which project should Gati Co. Ltd should choose?

Present Value Factor are:	
End of Year	**15%**
1	0.870
2	0.756
3	0.658
4	0.572
5	0.497

OR

Q 4 B. A company is considering investment proposal to install new machine at a cost of Rs 4 lakhs. The machine has a life expectancy of 5 years. Assume that the firm uses straight Line method of depreciation. The profit is calculated after deducting depreciation and tax: *(15)*

You are required to calculate the following:

i. Pay Back Period Method
ii. Average Rate of Return (Based on both Original Investment and Average Investment)
iii. Net Present Value @ 10%
iv. Profitability Index @ 10%

Year	Profit after Tax Rs	P V Factor @ 10 %
1	12,000	0.909
2	12,000	0.826
3	42,000	0.751
4	24,000	0.683
5	12,000	0.621

Q 5 A. 'Debentures: As a source of Finance'. Explain in brief. *(7)*

Q 5 B. What are the benefits of Credit Rating to Investors as well as to Issue Company? *(8)*

OR

Q 5 C. Write Short Notes (Any 3) *(15)*

1. Equity Shares.
2. Importance of Corporate Finance.
3. Goals of Financial Management.
4. Under-Capitalization.
5. Types of Risk.