Paper / Subject Code: 66703 / Corporate Finance

(2 Hours) **[Total Marks: 60]**

Instructions:

i. All questions are compulsory and subject to internal choice.
ii. Figures to the right indicate full marks.
iii. Make suitable assumptions whenever required and state them.
iv. Use of simple calculator is allowed.

Q1.

A) Prepare a projected Balance Sheet based on the following information: **[15 Marks]**

Estimated sales	Rs. 4,50,000	Current liabilities to net worth	25%
Sales to Net worth	2.5 times	Sales to inventory	5 times
Total debt to net worth	65%	Average collection period	36 days out of 360 days
Current ratio	3.6	Fixed assets to net worth	75%

Note: Assume all sales as credit sales.

OR

B) The ratios relating to Sterling Ltd. are given below:
Gross profit ratio 15%
Stock velocity 6 month
Debtors velocity 3 month
Creditors velocity 3 month
Gross profit for the year ending 31st March, 2022 amount to Rs. 60,000. Closing stock is equal to opening stock.
Find out:

1) Sales
2) Closing Stock & Opening Stock
3) Sundry Debtors
4) Sundry Creditors **[08 Marks]**

C) Let us assume you want to obtain an Annuity Policy that will give you a guaranteed sum of Rs.10,000 per annum for the next three years. If the company pays its customers 12% per annum, how much do you have to put into the policy immediately so that you would have nothing in the policy at the end of the third year? **[07 Marks]**

Q2.

A) The Mehak Chemicals Ltd. requires Rs.1,00,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs.20,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project-by raising debt of Rs.20,00,000 or Rs.30,00,000 or Rs.40,00,000 and the balance , in each case, by issuing equity shares. The company's share is currently selling at Rs. 200, but it is expected to decline to Rs.125 in case the funds are borrowed in excess of Rs. 30,00,000. The funds can be borrowed at the rate of 15% upto Rs.25,00,000, at 18% over Rs.25,00,000 and up to Rs.30,00,000 and at 22% over Rs.30,00,000. The tax rate applicable to the company is 30%. Which form of financing should the company choose? **[15 Marks]**

OR

B) Following is the capital structure of Manju Company Ltd.

Equity share capital	Rs. 1,00,00,000 (Face Value Rs.10)
10% Preference share capital	Rs. 25,00,000 (Face Value Rs.100)
8% Debentures	Rs. 50,00,000 (Face Value Rs.100)

Equity share of the company sells for Rs. 100 each.
Expected dividend is Rs. 1 per share. Tax rate is 20 %. Growth rate is 10 %.

a. Calculate weighted average cost of capital (WACC) in the above situation.
b. Calculate WACC if the company wants to raise additional capital of Rs. 25,00,000 through the debentures at 15%. In this situation, expected dividend would be Rs. 1.5 per share. Market price would be Rs. 80 per share. Growth rate is now expected to be 12%. **[15 Marks]**

Q3.

A) The data relating to the following Companies and their details are as follows:

Particulars	A Ltd.	B Ltd.
Equity Share Capital	Rs.5,25,000	Rs.7,80,000
10% Debentures	Rs.9,00,000	Rs.11,00,000
Output (units) p.a.	1,01,000	1,20,000
Selling price per unit	Rs.40	Rs.50
Fixed Cost p.a.	Rs.5,10,000	Rs.6,54,000
Variable Cost per unit	Rs.20	Rs.35

You are required to calculate the operating leverage, financial leverage and combined leverage. **[15 Marks]**

OR

B) Kirit Engineering Ltd. belongs to a risk class for which the capitalization rate is 15%. It currently has outstanding 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a dividend of Rs. 10 per share at the end of the current financial year. It expects to have a net income of Rs. 20,00,000 and has a proposal for making new investments of Rs.40,00,000. Calculate the value of the firms when dividends are paid using Modigliani Miller Approach. **[15 Marks]**

Q4.

A) **Multiple Choice Questions:** **[8 Marks]**

1. Liquidity and profitability are _______ goals.
   a. Competing
   b. Different
   c. Separate
   d. Finance

2. The source of capital used to get the financial leverage is______
   a. Retained Earnings
   b. Equity Share Capital
   c. Debt Capital
   d. Preference Share Capital
3. Short term creditors______________
   a. Debt equity ratio
   b. Operating ratios
   c. Current ratios
   d. Return on proprietors funds
4. Standard Liquid Ratio_____
   a. 2:1
   b. 1:1
   c. 3:1
   d. 5:1
5. If a man is promised the sum of Rs.10,000 per annum indefinitely at an interest rate of 12% per annum, what will be the present value of this perpetual annuity?
   a. Rs.83,333
   b. Rs.93,333
   c. Rs.88,888
   d. Rs.92,111
6. What would be the present value (PV) of an annuity of Rs. 2,00,000 paid at the end of every year for 5 years @ 8% rate of return. If PV factor for 5 Years @8% is 3.993.
   a. Rs. 7,98,600
   b. Rs. 7,88,600
   c. Rs. 7,98,400
   d. Rs. 50,088
7. In Net Operating Income Approach, which one of the following is constant?
   a. Cost of Equity
   b. Cost of Debt
   c. WACC & Kd
   d. Ke & Kd
8. Which of the following is not a relevant factor in EPS Analysis of capital structure?
   a. Rate of interest on debt
   b. Tax rate
   c. Amount of preference share capital
   d. Dividend paid last year

B) True or False: **[7 Marks]**

1. The wealth of corporate owners is measured by the share price of the stock.
2. Shareholders handle the financial management of a company as they are the owners of the company.
3. When a company records a credit sale, the acid-test ratio will increase.
4. A business with a higher working capital will also have a higher current ratio.
5. Compounding techniques shows present value.
6. Cash flows accruing to the firms at different time periods are directly comparable.
7. Financial leverage depends upon the operating leverage.

OR

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C) **Write short notes: (Any Three)** **[15 Marks]**

1. Composite Ratios
2. Objectives of financial management
3. Perpetuity
4. Cost of debt
5. Modigliani – Miller Theory

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