SYBFM sem IV Reg. Exam April - 2019.

Paper / Subject Code: 77807 / Corporate Finance

26/4/19.

(2½ Hours) **(Total Marks : 75)**

Note: 1) **All** questions are **compulsory**.

2) **Working Notes** should form **part of your answer**.

3) **Figures** to the **right** indicate **full marks**.

Q-1) (A) State whether following statements are true or false: **(Any eight)** **(08)**

1. Shareholders are interested in maximising their wealth.
2. Risk and return always goes hand in hand.
3. Rate of interest for debentures is fixed
4. Cash Inflow = NPAT + Depreciation
5. Contribution = Profit + Fixed Cost
6. Preference Shares are given flexible rate of dividend.
7. Profitability Index is traditional method of assessing capital expenditure decisions.
8. An overcapitalized company is one which incurs exceptionally high profits as compared to industry.
9. Capital Budgeting refers to mix of a company debt and equity.
10. P/E Ratio stands for Preference Equity

Q-1) (B) Match the columns: **(Any seven)** **(07)**

Column A	Column B
1. Assets	a. Issue of new securities
2. Replacement of Equipment	b. Earnings Per Share
3. Credit Sales	c. Equity Per Share
4. Credit Purchases	d. Excess of sales over BEP
5. EPS	e. International Trade
6. Working Capital	f. CA- CL
7. MOS	g. Debtors
8. Bonus Shares	h. Creditors
9. Floatation Costs	i. Free Shares
	j. Capital Budgeting Decisions
	k. Liabilities + Equity

S.W.K. SINGHANIA COLLEGE OF COMMERCE MUMBAI

Q-2) Flame Ltd has the following data for the coming year: **(15)**

Sales (10,000 units) Rs. 1,00,000

Variable Costs Rs. 40,000

Fixed Costs Rs. 50,000

Find out PVR, BEP and MOS.

Evaluate the effect of following on PVR, BEP and MOS

(a) 10% increase in variable cost

(b) 5% decrease in selling price

OR

Q-2) The ZED Ltd needs Rs. 5,00,000 for commissioning of a new plant. The following three financial plans are feasible: **(15)**

i) The company may issue 50,000 equity shares of Rs. 10 per share.

ii) The company may issue 25,000 equity shares of Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing 8% rate of interest.

iii) The company may issue 25,000 equity shares of Rs. 10 per share and 2,500 preference shares at Rs. 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes is Rs. 60,000 and Rs. 1,00,000, what is the EPS under each of the three financial plans for both EBITs? Which alternative would you recommend? Assume corporate tax rate to be 50%.

Q-3) Camel Ltd has the following capital structure as on 31st March, 2018. **(15)**

Particulars	Rs.
Ordinary Shares (4,00,000 shares)	80,00,000
10% Preference Shares	20,00,000
14% Debentures	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 40%. 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 15% debentures, the expected dividend at 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-3) (a) Explain advantages and disadvantages of bonus shares. **(08)**

(b) Discuss merits and demerits of Ploughing Back of Profits. **(07)**

Q-4) Aarohi Ltd is considering two mutually exclusive machines. Both require an initial outlay of Rs. 1,00,000 each and have a life of 5 years. The company's required rate of return is 10% and tax is 50%. The projects will be depreciated on a straight line basis. The profit before taxes are expected to be generated by the projects as follows: **(15)**

Year	Machine A	Machine B
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

Calculate and state which machine should be purchased based on:

i) Profitability Index and

ii) Payback Period

OR

Q-4) Company is considering two mutually exclusive projects. Both require initial investment of Rs. 2,00,000 each and have a life of five years. The Net Cash Inflows are given below: **(15)**

Year	Proposal A (Rs.)	Proposal B (Rs.)	PV factor at 10%	PV factor at 20%
1	50,000	55,000	0.91	0.83
2	52,000	53,000	0.83	0.69
3	58,000	58,000	0.75	0.58
4	55,000	55,000	0.68	0.48
5	50,000	55,000	0.62	0.41

The cost of capital is 10%. Which project should be accepted as per NPV Method. Also find IRR, taking 10% & 20% discounting factors.

Q-5) (a) Explain determinants of Capital Structure ? **(08)**

(b) Explain debentures as a source of finance. **(07)**

OR

Q-5) Write short notes on: **(Any three)** **(15)**

1) Features of Capital expenditure decisions
2) Break even Analysis
3) Importance of Corporate Finance
4) Qualities of Finance Manager
5) Over Capitalisation.

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