SY BMS (80)

M0133 / M0286 CORPORATE FINANCE

Q. P. Code: 23047

TIME: 2:30 HOURS **Marks: 75**

NOTE:1. Q1.is compulsory.

2. Q2 to Q5 having internal options.

3. figures to the right indicate full marks.

4. State your assumptions clearly.

Q1.A **Multiple Choice Questions .(Any 8).** (08)

1. NBFC means ____________.

a).Non-Banking Foreign Currency b) Non-Banking Financial Company

c) Non-Bankrupt Financial Company d) None of the above

2. Fixed dividend is not paid to __________.

a) Debenture holders b) Equity shareholders c) Preference Shareholders

d) none of them.

3.IRR stands for________

a) Interest Rate of Return b) Inclusive Rate of Risk c) Internal Rate of Return d)Initial Rate of Risk

4. Net Profit After Tax is Rs. 80,000 and Tax is Rs. 20,000 then Rate of Tax is _______.

a) 10% b) 20% c) 30% d) 15%

5. As per rule of 72, if the interest rate is 10% the doubling period will be _________.

a) 7.2 years b) 720 months c) 72 years d)10 years

6.Present Value = _______x _________.

a) FV x CF b) FV x DF c) CF x DF d) None of the above

7. Operating Leverage= ____________.

a) Contribution/EBIT b) EBIT/EBT c)EBIT/Contribution d)Contribution/Sales

8. Function of finance manager is ____________.

a) Decision regarding capital structure b) Dividend Decision

c) Working Capital Management d) All of the above

9. At indifference point, EPS is ____________.

a) Zerob) Same c) Positive d) Negative

10. Interest on debt is calculated on ___________.

a) Face Value b) Market Value c) Book Value d) Intrinsic Value

Q1.B **State whether True or False.(Any 7)** (07)

1. Interest is paid to Equity Shareholders.
2. Cost of existing share capital and fresh issue of capital are same.
3. Sectors where FDI is prohibited are Chit Funds, Lottery Business, Gambling and Betting, etc.
4. Capital Budgeting is a part of investment decision.
5. Modiglian-Miller (MM) Model is difficult to apply in practice.
6. Different sources of Finance have same Cost of Capital.
7. Bill Discounting means providing funds against Bill.
8. If I make one deposit today and wish to know how much it will be accumulated in the future, that value is called Present Value.
9. Depreciation is a Non-Cash item.
10. Cash Credit is an arrangement under which a customer is allowed an advance upto certain limit against credit granted by bank.

Q2.A Following are the details of two companies A and B (08)

Particulars	A	B
Variable cost per unit (Rs)	38	45
Fixed cost per annum (Rs)	4,00,000	6,00,000
Selling Price per unit (Rs)	85	120
Output Per annum(units)	18,000	20,000
Interest on Debentures (Rs)	1,25,000	80,000

Calculate: 1.Operating Leverage and 2.Financial Leverage of two companies

B Following are the details of Capital Structure of Company X Ltd. (07)

Sources Of Funds	Amount in Rs	Cost of Capital After Tax
Equity Capital	40,000	5 %
Preference Capital	10,000	8%
Debentures	60,000	13%
Retained Earnings	20,000	9 %

Calculate Weighted Average Cost of Capital.

OR

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Q2.P. Gates Ltd has the following Capital Structure: (15)

Source of Funds	Amount (Rs)
Equity Shares of Rs.10 each	40,00,000
12% Preference Shares	20,00,000
14% Debentures	60,00,000

The company requires Rs.30,00,000 to finance expansion programme for which the following alternatives are available:

i) Issue of new Debentures and Preference Share are in equal proportions
ii) Issue of Preference Shares to the extent of 20% and 80% by Debentures.
iii) Issue of new 15% Debentures.

After Expansion Earnings Before Interest and Tax (EBIT) is Rs.60,50,000.

The Income Tax rate is 50%.

Recommend the best alternative with suitable reason.

Q3.A Find the present value of Rs.10, 000 receivable 6 years hence, if the interest rate is 10%? (07)

B Calculate the **Expected Return and Standard Deviation** from the following details Ben Ltd. (08)

Economic Conditions	Probability	Rate of Return
Boom	0.35	40 %
Normal	0.50	30%
Recession	0.15	20%

OR

Q3.P Speed ltd is considering a project which cost Rs.8, 00,000.Tax rate is 30 %.The company uses Straight Line Method of Depreciation and the proposed project has cash inflows before depreciation and tax as Follows: (15)

Year	Cash Inflow	PV Factor @12%	PV Factor @14%
1	3,00,000	0.893	0.877
2	2,00,000	0.797	0.769
3	2,50,000	0.712	0.675
4	2,00,000	0.636	0.592
5	3,50,000	0.567	0.519

Calculate Internal Rate of Return

Q4.A Following are the details of Noble Ltd who require Rs.10,00,000 for a new Plant. Expected Earnings Before Interest and Tax (EBIT) Rs.5,00,000.It has three alternatives to Finance the Project: (15)

i) Debt Rs.1,00,000 and Balance by Equity Share .
ii) Debt Rs.3,00,000 and Balance by Equity Share.
iii) Debt Rs.6,00,000 and Balance by Equity Share.

The company's Equity share is currently being sold at Rs.30 per Share.

Interest on Debt:

Debt upto Rs.1,00,000 -10%

Debt Rs.1,00,001 to Rs.5,00,000 – 14%

Debt above Rs.5,00,000 – 18%

Tax Rate Applicable – 50%

Recommend the best alternative with suitable reason.

OR

Q4.B Bell Ltd wants to invest in a Project. Two options available are Project P and Project Q. Following are the details: (15)

	Project P	Project Q
Cost of Investment (Rs)	8,00,000	9,00,000
Cash flows: Year		
1	30,000	40,000
2	40,000	50,000
3	50,000	60,000
4	60,000	80,000
5	90,000	90,000

Discounting Factor 15%

Year	1	2	3	4	5
P.V 15%	0.870	0.756	0.658	0.572	0.497

Calculate Net Present Value for both the Projects and Recommend which Project should be selected.

Q5.A Explain the Meaning and Significance of Corporate Finance. (08)

B Explain the RBI Guidelines for Public deposits (07)

OR

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Q5.A Write short note on. **Any 3 out of 5.** (15)

1. Under capitalization
2. Ordinary Shares
3. SEBI Regulations
4. Principles of Corporate Finance
5. Convertible Debentures

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