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Total Number of Pages : 02

MBA
18MBA201

2nd Semester Regular Examination 2018-19

CORPORATE FINANCE

BRANCH : MBA

Max Marks : 100

Time : 3 Hours

Q.CODE : F978

Answer Question No.1 (Part-1) which is compulsory, any EIGHT from Part-II and any TWO from Part-III.

The figures in the right hand margin indicate marks.

Part- I

Q1 Only Short Answer Type Questions (Answer All-10) (2 x 10)

- Deduce the formula for future value of a single payment today.
- Mention any four sources of short-term financing.
- Distinguish between systematic risk and unsystematic risk with example.
- Name the projects where profit earning is not the sole motto.
- Suppose a listed company doesn't declare dividend for three consecutive years, will it have a negative impact on its share price in the stock exchange? Justify your answer.
- Explain the concept of opportunity cost.
- The market price of an equity share is Rs 160. The dividend expected after a year is Rs 12 per share. The dividend is expected to grow at a constant rate of 4% p.a. What is the rate of return for the shareholder?
- Distinguish between Stock dividend and cash dividend.
- Compute the EOQ if the requirement of inventory is 1,200 units, Ordering cost is Rs 50 and Carrying cost per unit is Rs 3.
- Describe the Working Capital Cycle.

Part- II

Q2 Only Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve) (6 x 8)

- Discuss six important principles of financial decision making.
- Explain how wealth maximization is a superior goal to profit maximization?
- Distinguish between financial leverage and operating leverage.
- Explain the factors influencing the determination of the capital structure of a company.
- Sales of a company is Rs 10,00,000 , Variable cost and Fixed cost are Rs 4,00,00 each. The company has issued debentures worth Rs 10,00,000 carrying 10 % rate of interest. If the sales increase by 10 % what will be the percentage increase in EBT as a result of combined leverage?
- What is ABC Analysis? Explain the benefits of this analysis.
- Explain the meaning of Receivables. Discuss the risk associated with it.
- Discuss the three important motives of holding cash by a company.
- Explain the relevant concept of dividend policy.
- A company has the following capital structure.
40,000 Equity shares of Rs 20 each, 10% Preference shares valued Rs 2,00,000 , 12 % Debentures worth Rs 2,00,000. The equity shares are traded @ Rs 25 per share . The company expects to pay Rs 2 per share as dividend for the next year. It has a constant growth rate of 5 % . Assume 50% of tax rate. Compute WACC.
- Discuss the factors influencing working capital requirement.
- Explain the importance of adequate working capital.

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Part-III

Only Long Answer Type Questions (Answer Any Two out of Four)

Q3 Sheetal Ltd. Is considering two different investment proposals. The details are as under : **(16)**

	Proposal A	Proposal B
Investment cost	9,500	20,000
Net cash inflow Year 1	4,000	8,000
Year 2	4,000	8,000
Year 3	4,500	12,000

a) Suggest the most attractive proposal on the basis of excess present value method considering future incomes are discounted at 12 %.

b) Find out the internal rate of return of the two proposals .

Q4 The sales revenue of Bombay Zintex Ltd. Is Rs 20,00,000 (@ Rs 20 p.u.) and the contribution is Rs 10,00,000 . At the present level of operations the operating leverage is 2.5. The company does not have any preference shares except 1,00,000 Equity shares of Rs 10 fully paid up . The income tax rate is 50 % . The rate of interest on debt capital is 16 % p.a. **(16)**

Find out :

a) The EPS at sales of Rs 20,00,000 .

b) The amount of debt capital if 25 % decline will wipe out the EPS.

Q5 Sashi Ltd. Manufactures product X and a proforma cost sheet p.u. is given as under : **(16)**

Raw materials Rs 160

Direct Labour Rs 60

Overheads Rs 120

Profit Rs 60

Sales Price Rs 400

Additional Information :

a) Raw materials are in stock on average for one month.

b) Work-in-progress on average of half a month.

c) Finished goods are in stock on average of one month.

d) Credit allowed by suppliers is one month and that allowed to customers is two months.

e) Lag in payment in wages is 1.5 weeks and in payment of overhead is one month

f) One fourth of output is sold against cash

g) Cash in hand is estimated to be Rs 50,000

Assuming a level of activity producing 52,000 units, prepare an

Q6 **Answer the following :**

a) Describe in detail the four most important decisions taken by a finance manager while discharging the finance functions. **(8)**

b) Discuss the sources of long- term finance for a company. **(8)**