5/10/19 S.Y. BFM Sem IV Corporate Finance

Time: 2 ½ Hours

Total Marks: 75

Note: 1. All questions are compulsory.

2. Figures to the right indicate full Marks.

3. Working note should be part of Answer

Q.1 Match the columns (Any 7) (7 Marks)

Column A	Column B
1.Cost of Equity	a) Expressed in Rupees
2.Profit + Fixed Cost	b) Ordinary share capital
3.Payback Period	c)Tax Deductible
4.Common Stock	d) Short term Finance
5.NPV	e) Time value of Money
6.IPO	f) Traditional techniques
7.BEP	g) Contribution
8.Trade Credit	h) Initial Public Offerings
9.Earnings Per Share	i) No Profit or No Loss
10.Interest on Debts	j) (DPS/MPS)+G

Q.1 b) State whether the following statements are True or False: (any 8) (8 Marks)

1. In Capital structure the ratio of debt and equity must be equal.
2. If NPV is greater than zero, then the project has to be rejected.
3. Capitalisation is generally found to be of the types: normal, over and under.
4. Capital assets are subject to depreciation.
5. Equity investors are high risk bearers.
6. Share capital is a long term source of finance.
7. Break-even point is a no profit no loss point.
8. The duty of a finance manager is to determine the marketing strategy to promote a new product.
9. Variable cost per unit varies with the increase in the volume of output.
10. In case of hire purchase transactions cash price includes interest.

Q.2 a) The following particulars are available for two periods: (15 Marks)

Particulars	Period I Rs.	Period II Rs.
Sales	4,00,000	6,00,000
Total Cost	3,60,000	5,20,000

Calculate:

a) P/V Ratio

b) BEP

c) Sales require to earn profit of Rs. 1,00,000

d) Profit when sales are Rs. 10,00,000

e) Margin of safety at a profit of Rs. 50,000.

OR

Q.2 B) TVS is considering a purchase of a machine P and R are the 2 machines available. From the following information ,suggest which of the two is recommended under : (15 marks)

a) ARR and b) Profitability index Methods

	Machine P Rs.	Machine R Rs.
Cost	4,00,000	5,60,000
Life	5 years	7 years
Profit after Tax		
Year: 1	12,000	10,000
2	12,000	40,000
3	42,000	40,000
4	24,000	20,000
5	12,000	10,000
6	-	10,000
7	-	10,000

i) Profit is calculated after deductible straight line depreciation and tax.

ii) The cost of capital is 10 %.

iii) The PVF's at 10% for years ending 1, 2, 3,4,5,6 and 7 are 0.909, 0.826, 0.751, 0.683, 0.621, 0.564, and 0.513 respectively.

iv) Depreciation for both machines P and R, are Rs. 80,000 per annum respectively.

Q.3 (A) A company has on its books the following amounts and specific costs of each type of capital

15 marks

Type of Capital	Book Value Rs.	Market Value Rs.	Specific Costs (%)
Debt	2,00,000	1,90,000	7.50
Preference	50,000	55,000	12.00
Equity	3,00,000	4,50,000	22.50
Retained Earnings	1,00,000	1,50,000	19.50
	6,50,000	8,45,000	

Determine the weighted average cost capital using:

a) Book Value weights, and

b) Market value weights.

OR

Q.3 B) Explain Hire Purchase in detail. (7 marks)

C) What is the meaning and significance of weighted average cost of capital?

Q.4 A) Proposer company has currently, an ordinary share capital of Rs. 50 lakhs, consisting of 5, 00,000 share of Rs. 10 each. The management is planning to raise another Rs.40 lakhs to finance major Programme of expansion through one of three possible financing plans. The plans are:

i) Entirely through ordinary shares.

ii) Rs.20 lakhs through ordinary shares and Rs.20 lakhs through long-term borrowing at 8 % interest P.A.

iii) Rs.10 Lakhs through ordinary shares and Rs. 30 lakhs through long – term borrowing at 9 % interest P.A.

The company's expected earnings before interest and taxes (EBIT) will be Rs.16 Lakhs. Assuming a corporate tax rate of 50 % , determine the earning per share (EPS) in each alternative.

OR

Q.4 B) Determine the Payback period from the following data of two machines A and B: 15 marks

Particulars	Machine A	Machine B
Cost in Rs.	1,12,250	1,12,250
Estimated life in years	5	5
Estimated salvage value in Rs.	6,000	6,000
Annual estimated income after depreciation and Tax: (Rs.)		
1	6,750	22,750
2	10,750	18,750
3	14,750	14,750
4	18,750	10,750
5	22,750	6,750

Depreciation has been charged on Straight Line Method.

Q.5 a) Explain the scope of Financial Management. 8 marks

b) What are the various sources of long term finance? 7 marks

OR

Q.5 Write short notes on (any 3) (15 Marks)

a) Payback Period Method.

b) Types of Preference Share.

c) Types of Risks.

d) Break- even point.

e) Cost of Debt.