28032023

VCD_____ SYFMG Sem: IV CORPORATE FINANCE Marks: 75 Time: 2½ Hrs

Q.1(a)State whether the following statements are true or false: (any 8) **(8)**

1. The objective of a credit policy is to curtail the credit period allowed.
2. The lessee enjoys the salvage value of the asset.
3. Commercial paper is a secured form of finance.
4. In case of hire purchase transactions cash price includes interest.
5. IRR is easy to calculate.
6. At the point of IRR,NPV is positive..
7. The ratio of debt and equity must be equal
8. Variable cost per unit varies with the increase in the volume of output.
9. Overcapitalisation does not have any adverse effects.
10. Cost of equity is zero.

Q.1(b) Match the column : (any 7) **(7)**

Column A	**Column B**
1. Cost of debt	a. Highest
2. Interest on debt	b. Overall cost of capital
3. Capital Budgeting	c. payback period
4. Traditional Method	d. Mobilization of funds
5. Cost of equity	e. Lowest
6. WACC	f. Tax deductible
7. Financing Decisions	g. Deployment of funds
8. Modern method	h. Capital Expenditure projects
9. Investment Decision	i. Capital structure planning
10. Flotation costs	j. Issue of new securities

Q.2 (a) Calculate the weighted average cost of capital from the following data. Ignore taxation.

Particulars	Rs
7% debentures	1,30,000
8% preference shares	70,000
Equity shares of (Rs 100 F.v)	6,00,000
	8,00,000

A dividend of 10% a year has been paid on the equity shares in recent years. All of the above company's securities are quoted on the local stock exchange. The prices of these securities

have been at par. (7)

(7) Q.2 (b) A co. ltd wishes to buy a machine costing Rs. 2,00,000. The life of this machine is 10 years and its scrap value would be Rs. 5,000 . The following details are provided

Average Annual NPBT	Rs. 20,000
Tax Rate	35%
Depreciation (already charged)	SLM basis

Calculate:Pay back period,Payback profitability, Accounting Rate of Return (8)

OR

Q.2 A company is considering the two mutually exclusive projects. The finance director considers that the project with higher NPV should be chosen whereas the managing Director thinks that one with higher rate of return should be considered . Both projects have a useful life of 5 years and the cost of capital is 10% . The initial outlay is Rs 2 lakhs.

The future cash inflow from Project X and Y are as under:

year	X (RS)	Y (RS)	PV FACTOR @ 10%	PV FACTOR @ 20%
1	35,000	1,18,000	0.91	0.83
2	80,000	60,000	0.83	0.69
3	90,000	40,000	0.75	0.58
4	75,000	14,000	0.68	0.48
5	20,000	13,000	0.62	0.41

You are required to evaluate the projects and explain the inconsistency, if any, in the ranking of projects. **(15)**

Q.3(a) A company produces and sells 1,000 units of a product per month at the rate of Rs 20. If the variable cost is Rs 12 per unit and fixed cost is Rs 3,000 per month. Calculate Break even point in rupees. (ii) If the selling price is reduced by 20% . Calculate new Break even point in units. (iii) Calculate the number of units to be sold at the reduced selling price to earn a profit of Rs 4,000. **(07)**

Q.3(b) The sales and profits during two years were as follows:

Year ending 31st march	Sales (rs)	Profit (rs)
2004	4,00,000	40,000
2005	6,00,000	80,000

Calculate a) P/V Ratio (b) Fixed Cost (c) Break Even Point (d) Profit when sales are Rs 7,50,000 (e) If co wants profit of Rs 12,000 what should be the level of sales? **(08)**

OR

Q.3. Calculate P/V ratio,the margin of safety and the break even point (in units rupees) **(15)**

What is the current Profit? How much should the company sell to earn a target profit of Rs 1,00,000?

Total no. of units manufactured and sold	800
Variable cost p.u	Rs 20
Total Fixed cost	Rs 1000
Selling price p.u	Rs 120

Q.4(a)A company needs Rs 12 lakhs for the installation of a new factory which would yield an annual EBIT of Rs 2,00,000. The company has the objective of maximizing the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of Rs 2,00,000, Rs 6,00,000 or Rs 10,00,000. The current market price per share is Rs 40 which is expected to drop to Rs 25 per share if the market borrowings were to exceed Rs 7,50,000

Cost of borrowings are indicated as under:

Upto Rs 2,50,000	10% p.a
Between Rs 2,50,001 to Rs 6,25,000	14% p.a
Between Rs 6,25,001 to Rs 10,00,000	16% p.a

Assuming a tax rate of 50% workout the EPS and the scheme which would meet the objective of the management. **(15)**

OR

Q.4(b) Godrej Company has currently an ordinary share capital of Rs 25 lakhs, consisting of 25,000 shares of Rs 100 each. The management is planning to raise another Rs 20 lakhs to finance a major programme of expansion through one of four possible financing plans.

1. Entirely through ordinary shares
2. Rs 10 lakhs through ordinary shares and Rs 10 lakhs through Long term Borrowing at 8 % per annum
3. Rs 5 lakhs through ordinary shares and Rs 15 lakhs through long term borrowing at 9% per annum
4. Rs 10 lakhs through ordinary shares and Rs 10 lakhs through preference shares with 5% dividend.

The company's expected earning before interest and tax (EBIT) will be Rs 8 lakhs.Assuming a corporate tax rate of 50%,determine the earning per share (EPS) in each alternative and comment on the implications of financial leverage. **(15)**

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Q.5(a) Distinguish between Lease Financing and Hire Purchase Financing. **(8)**

(b) Define the term Corporate Finance. Explain its features ? **(7)**

OR

Q.5 Short Notes: (any 3): **(15)**

1. Qualities of Finance Manager
2. Features of Marginal costing
3. Advantages of payback period
4. Features of preference shares
5. Watered Capital