VCD/ 13/022/SYBMS (FIN) /SEM III/CORPORATE FINANCE/2.5 HRS/75 MARKS

Note :1. All questions are compulsory.

Q.1) Fill in the blanks. (any 8) **(8)**

1. __________ are the creditors of the company.
   a. Debenture holders
   b. Equity shareholders
   c. Preference shareholders

2. Fixed return is not paid to __________
   a. Debenture holders
   b. Equity shareholders
   c. Preference shareholders

3. The combination of long-term sources of funds i.e., equity capital, preference capital, retained earnings & debentures in the firm's capital are known as __________
   a. Cost of capital
   b. Capital structure
   c. Leverage

4. Corporate finance is the study of sources of ______ & how to use the money raised.
   a. Finance
   b. Material
   c. Labour

5. The process of remedying ___________ is very painful
   a. Capitalization
   b. Over – capitalization
   c. Under – capitalization

6. Fixed capital stays in the business for a ______ time
   a. Long
   b. Short
   c. Moderate

7. Seasonal working capital is the amount of working capital to meet the demand of ________ requirements.
   a. Special
   b. Seasonal
   c. Peak

8. Working capital cycle is also known as ______ cycle.
   a. Operating
   b. Positive
   c. Permanent

9. ________ preference shares are given the option to convert their shares into equity shares.
   a. Redeemable
   b. Participating
   c. Convertible

10. ________ period is defined as the number of years required to recover the original cash outlay invested in a project.
   a. Return
   b. Payback
   c. Profitability

Q.2 B) State whether True or False. (Any 7) **(7)**

1. Interest rate risk refers to the risk that arises due to fluctuation of interest rates.

2. Agreement under which accounts receivable are generally sold to a financial institution is called as Factoring.

3. If NPV >equal to zero, then project is acceptable otherwise project has to be rejected.

4. Retained earning is one of the source of short term finance of the company.

5.Equity shareholders are creditors of the company.

6. GDR stands for Global Depository Receipt.

7. WACC is the overall cost of capital.

8.Different sources have same cost of capital.

9.Credit purchase can be a good source of short-term finance.

10. In India, commercial papers can be issued for any amount and for any duration.

Q.2. A) Calculate the degree of operating leverage, financial leverage & combined leverage for the following firms : **(8)**

Particular	RS.
Production (in units)	6,700
Fixed Cost	3,50,000
Interest on loan	75,000
Selling price per unit	130
Variable cost per unit	42.50

Q.2 B) A company issues Rs. 3,00,000, 10% debentures of Rs. 100 each and realises Rs. 2,94,000 after allowing 2% commission to brokers. The debentures are redeemable after the expiry of fixed period of 10 years. The company is in 30% tax bracket. Calculate the cost of debentures after tax. **(7)**

OR

Q.2 P) 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 & Rs. 6,25,000	14 % p.a.
Between Rs. 6,25,001 & Rs. 10,00,000	16 % p.a.

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

Q.3 A) The following items have been extracted from the liability side of the balance sheet of Bansilal Ltd. Company as paid-up capital. (8)

5,00,000 equity shares of Rs. 10 each	50,00,000
tax – 50%	
Reserves & surplus	60,00,000
18% convertible debentures	20,00,000
16% institutional loan	60,00,000

Other information about the company as relevant is given below :

Cost of Equity – 15%

Cost of Reserve – 15%

You are required to calculate the weighted average cost of capital.

Q.3 B) Find the present value of Rs. 1,00,000 to be received at the end of 5 years at 12% interest compounded quarterly. (7)

OR

Q.3P) A machine costs Rs. 280000 & is expected to produce the following cash flows : (15)

Year	1	2	3	4	5	6	7
Cash Flow	50,000	57,000	35,000	60,000	40,000	30,000	60,000

If the cost of capital is 12%, Calculate NPV & suggest it is worth buying the machine.

Q.4 A) The following information given below (8)

Return	Probability
6	0.1
7	0.25
8	0.3
9	0.25
10	0.1

Calculate Expected return & Standard deviation

Q.4 B) Find the present value of Rs. 1,00,000 to be received at the end of 5 years at 12% interest compounded quarterly. (7)

OR

Q.4 P) Reliance Ltd. is considering project Y. It has useful life of 5 years & the cost of capital is 10%. The initial outlay is Rs. 2,00,000 (15)

Year	Cash Inflow	PV factor @10 %	PV factor @ 20%
1	1,18,000	0.91	0.83
2	60,000	0.83	0.69
3	40,000	0.75	0.58
4	14,000	0.68	0.48
5	13,000	0.62	0.41

Calculate Internal Rate of Return.

Q.5 A) Explain Types of Working Capital. (8)

B) Explain Types of preference shares (7)

OR

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

1. Public Deposit
2. Need of FDI
3. Feature of GDR
4. Private Placement of Securities
5. Equity Shares