Paper / Subject Code: 66703 / Corporate Finance

Q. P. Code : 37758

(2 Hours) **(Total Marks : 60)**

Please check whether you have the right question paper.

N.B.:
1) **All** questions are **compulsory** subject to **internal choice**.
2) **Figures** to the **right** indicate **full marks**.
3) **Make suitable** assumptions wherever **required and state them.**
4) **Use** of **simple calculator** is **allowed**.

1. Anjali Ltd. has equity share capital of ₹30,00,000 divided into share of ₹100 each. It wishes to raise further ₹12,00,000 for expansion programme. **(15)**

The company plans the following financing alternatives for additional funds required :

Funds Raised by	Financing alternatives			
	I	II	III	IV
Issue of Equity Shares (at par)	100%	50%	50%	-
Issue of 8% Preference Shares	-	-	30%	50%
Issue of 10% Debentures	-	50%	20%	50%

You are required to suggest the best financing alternative giving your comments, assuming that estimate EBIT after expansion ₹6,00,000 and corporate tax rate is 30%.

OR

1. From the following information you are required to calculate : **(15)**

a)	Average Inventory	b)	Purchases
c)	Average Debtors	d)	Average Creditors
e)	Average Payment Period	f)	Average Collection Period
g)	Current Assets	h)	Current Liabilities

Inventory turnover ratio = 6 times
Creditors turnover ratio = 10 times
Debtors turnover ratio = 8 times
Current ratio = 2.4
Gross profit ration = 25%

Total sales ₹30,00,000; Cash sales 25% of credit sales; Cash purchases ₹2,30,000; working capital ₹2,80,000; closing inventory is ₹80,000 more than opening inventory.

2. Calculate Operating Leverage, Financial Leverage and Combined Leverage from the following data under situation I and Situation II taking into account Financial Plan A and Financial Plan B under both the situations : **(15)**

- Installed capacity = 6,000 units.
- Actual production and sales = 50% of installed capacity.
- Selling price = ₹30 per unit.
- Variable cost = 50% of selling price per unit
- Fixed Cost :

  Situation I = ₹15,000

  Situation II = ₹20,000

TURN OVER

- Financial Plans :

	Plan A	Plan B
Equity share capital	10,000	15,000
20% Debentures	10,000	5,000
Total	**20,000**	**20,000**

OR

2. **a)** A project involves cash inflows as given below : **(08)**

Year	Cash inflow (₹)
1	10,000
2	12,000
3	15,000
4	20,000

If the rate of interest is 15%. Find out present value of cash inflows. (Consider upto two digits after decimal).

b) RSK Ltd. obtained funds from the following sources. The specific cost are also given against them : **(07)**

Sources of funds	Amount in ₹	Cost of capital
Equity shares	30,00,000	15%
Preference shares	8,00,000	8%
Retained earnings	12,00,000	11%
Debentures	10,00,000	9% (before tax)

You are required to calculate weighted average. Cost of capital, assume corporate tax rate is 30%.

3. Following are the details regarding three companies : **(15)**

	X Ltd.	Y Ltd.	Z Ltd.
Rate of return on investments	12%	6%	8%
Cost of Equity Capital	8%	8%	8%
Earning per share	₹10	₹10	₹10

Calculate value of equity share of each company as per Walter's Model when the dividend payout ratio is : a) 20%, b) 60%, c) 100%.

OR

3. From the following information of AB Ltd. **(15)**

You are required to calculate :

a) Cost of equity

b) Cost of debt (after tax)

c) Weighted average cost of capital

Earning per share = ₹4

Dividend Payout Ratio = 25%

Market Price Per Share = ₹40

Rate of Tax = 30%

Dividend Growth Rate = 8%

The company wants to raise additional capital of ₹10,00,000 including debts of ₹4,00,000. The cost of debt (before tax) is 10% upto ₹2,00,000 and 15% beyond that.

TURN OVER

4. **a)** State whether the following statement are True or False : **(08)**

1) Strength of an organization depends on its financial discipline.
2) Compounding technique shows present value.
3) Equity fund includes debentures.
4) Debt collection period show the period taken by debtors to pay.
5) Cost of retained earing is separately calculated.
6) Trading on equity is used to increase earning per share,
7) While issuing stock dividend SEBI guidelines should be compiled with.
8) The capital structure need not to flexible.

b) Match the columns : **(07)**

Column A	Column B
1) Objectives of Financial Management	a) Optimum capital structure does not exist
2) Liquidity	b) Trading efficiency
3) Rule 72	c) Overall profitability
4) High Gearing	d) Convertibility into cash
5) Gross Profit Ratio	e) Wealth Maximization
6) Return on Investment	f) Increases Financial Risk
7) M.M. Approach	g) To get doubling period

OR

4. Write short notes on **(Any Three)** : **(15)**

a) Marginal Cost of Capital
b) Stable Dividend Policy
c) Forms of Investments
d) Importance of Financial Management
e) Return on Capital Employed