BANGALORE UNIVERSITY
MODEL QUESTION PAPER

Duration: 2.00 Hours

Total Marks: 60

SECTION - A

I. Answer any Six of the following (6 × 2 = 12)

a. Define corporate finance.

b. What is optimal capital structure?

c. Give the meaning of Capital Budgeting.

d. State the principle of Walter divided model.

e. Differentiate gross and net working capital.

f. ABC limited earns ₹ 6 per share having capitalization rate of 10% and has a return on investment @ 20%. According to Walter's Model, what should be the price per share at 30% dividend payout ratio?

g. Initial investment ₹ 3,00,000, scrap value ₹ 50,000, working life 5 years, additional working capital ₹ 25,000. Calculate average investment.

h. What is acceptance and rejection criteria in Profitability Index method?

SECTION - B

II. Answer any three of the following (3×4=12)

2. Analyze the factors influencing a sound financial plan.

3. Boots leather accessories gives the following information:

   a. Selling price per unit ₹ 100
   b. Variable cost per unit ₹ 50
   c. Fixed Cost ₹ 1,00,000
   d. Units produced & sold ₹ 6,000 Units
   e. Interest on debt ₹ 15,000

   Calculate three types of leverages.

4. Briefly explain types of dividend policies.

5. Identify various components of working capital.

6. A company is requiring a machine which needs an investment of ₹ 3,20,000. The net income before tax and depreciation is estimated as follows:

Year	1	2	3	4	5
Income	1,60,000	60,000	1,08,000	1,12,000	96,000

Assuming a 55% tax rate and depreciation on straight line basis. Calculate the ARR.

SECTION- C

III. Answer any three of the following question. Each question carries Twelve Marks. (3 × 12= 36)

7. Using the information below, calculate the net working capital required for Brits Ltd., adding 10% for contingencies.
   - The estimated cost of production per unit is ₹ 170, which includes ₹ 80 for raw materials, ₹ 30 for direct labour, and ₹ 60 for overhead.
   - Selling Price ₹ 200 per unit.
   - Level of activity per annum 1,04,000 units.
   - Raw material in stock: 4 weeks
   - Work-in-progress (assume 50% completion) 2 weeks
   - Finished goods in stock 4 weeks
   - Credit allowed by suppliers 4 weeks
   - Credit allowed to debtors 8 weeks
   - Lag in payment of wages 1.5 weeks
   - Cash at bank is expected to be ₹ 25,000.

   You may assume that production is carried evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.
8. The earnings per share of a company is ₹ 10 and the rate of capitalization applicable to the company is 10%. The company can adopt a payout ratio of 0% or 30% or 50% or 80% or 100%. Using Walter's model of dividend payout, compute the market value of the company's share if the productivity of retained earnings is (1) 15% (2) 10% and (3) 8%.
9. Critically evaluate the objectives of financial management
10. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y the details of which are as follows:

Particulars	Machine X	Machine Y
Investment	70,000	70,000
Cash flow per year 1	10,000	60,000
2	20,000	40,000
3	30,000	20,000
4	45,000	10,000
5	60,000	10,000

The present value of Re. 1 at 10% discount rate is as follows:

Year	1	2	3	4	5
PV Factor	0.909	0.826	0.751	0.683	0.621

On the basis of NPV which machine should be selected?

11. Identify the consequences of excess and inadequate working capital.

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