Q.6 Attempt any two:

i. What is Dividend? Explain the factors affecting dividend policy of a firm. **5**

ii. Explain the Walter Model and Gordon Model. **5**

iii. A company has sales of 1 lac. The variable costs are 40% of the sales while fixed operating costs amount to Rs. 30,000. The amount of interest on long- term debt is Rs.10,000. **5**

You are required to calculate composite leverage and the impact if sales are increased by 5%.

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Total No. of Questions: 6 *Total No. of Printed Pages:4*

Enrollment No.....................................

Faculty of Management Studies

End Sem (Even) Examination May-2022

MS5CO18 Corporate Finance

Programme: MBA Branch/Specialisation: Management

Duration: 3 Hrs. **Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d.

Q.1 i. Time value of money supports the comparison of cash flows recorded at different time period by: **1**

(a) Discounting all cash flows to a common point of time
(b) Compounding all cash flows to a common point of time
(c) Using either (a) or (b)
(d) None of these

ii. The objective of wealth maximization takes into account: **1**

(a) Amount of returns expected
(b) Timing of anticipated returns
(c) Risk associated with uncertainty of returns
(d) All of these

iii. Funds required for purchasing current assets is an example of **1**

(a) Fixed capital requirement
(b) Ploughing back of profits
(c) Working capital requirement
(d) Lease financing

iv. Under hire purchase system who has the right of sell __________. **1**

(a) Buyer (b) Hirer
(c) Hire Vendor (d) Debtor

v. In weighted average cost of capital, a company can affect its capital cost through: **1**

(a) Policy of capital structure (b) Policy of dividends
(c) Policy of investment (d) All of these

vi. The term EBIT stands for: **1**
(a) Earning Before Income and Tax
(b) Equity Before Individual and Tool
(c) Earning Before Interest and Tax
(d) None of these

vii. Having defined working capital as current assets, it can be further classified according to __________. **1**
(a) Financing method and time
(b) Rate of return and financing method
(c) Time and rate of return
(d) Components and time

viii. Maximum maturity days of holding commercial paper are: **1**
(a) 170 days (b) 270 days (c) 120 days (d) 5 days

ix. Modigliani and Miller argue that the dividend decision __________. **1**
(a) Is irrelevant as the value of the firm is based on the earning power of its assets.
(b) Is relevant as the value of the firm is not based just on the earning power of its assets.
(c) Is irrelevant as dividends represent cash leaving the firm to shareholders, who own the firm anyway.
(d) Is relevant as cash outflow always influences other firm decisions.

x. A payment of either cash or stock out of a corporation's earnings to a firm's owners is called **1**
(a) Normal distribution. (b) Retained distribution
(c) Operating distribution. (d) Dividend

Q.2 i. Write any two points of scope of financial management. **2**
ii. Contrast the objective of earning maximization with the maximization of wealth. **8**
OR iii. Calculate the compounded value of Rs. 20,000 at the end of 3 years at 12% rate of interest when interest is calculated: **8**
(a) Yearly (b) Half yearly (c) Quarterly (d) Monthly

Q.3 i. Define any two short term sources of finance in brief. **2**
ii. Enumerate the basic characteristics of Shares, debentures, preference shares and term loans. **8**

OR iii. Explain the terms Leasing and Hire purchase in detail with example. **8**

Q.4 i. A company issued 60,000, 10% debentures of Rs. 100 each redeemable after 5 years. Issue expenses, underwriting commission & printing and other expenses as Rs. 20,000, Rs. 20,000 and Rs. 20,000, respectively. Tax rate was 30%. Find out pre- and post-tax cost of debt if debentures are issued at: **4**
(a) At Par redeemable at 5% premium.
(b) At 5% Discount redeemable at 5% premium.

ii. PQR & Co. has a total Share Capital of Rs.2,00,000 divided in to shares of Rs. 10 each. It has major expansion plans requiring an investment of another 1,00,000 Rs. **6**
The funds requirement can be raised by three alternative methods. EBIT of Co. Rs. 80,000, Find out the EPS under these three alternative plans. Tax rate 50%.
(a) Issue 10,000 equity shares of Rs.10 each
(b) Issue 10,000, 12% preference share of Rs.10 each
(c) Issue 10,000, 9% Debentures of Rs.10 each.

OR iii. Explain Net Income approach and Net operating income approach in detail. **6**

Q.5 i. How will you determine the working capital requirement of your business firm? Explain. **4**
ii. Prepare an estimate of working capital requirement from the following information: **6**

Project annual sales	1,00,000 units
Selling price	Rs. 8 per unit
% of net profit on sales	25%
Average credit period allowed	8 weeks
Average credit period allowed by suppliers	4 weeks
Average stock holding in terms of sales requirement	12 weeks

Allow 10% for contingencies.

OR iii. Explain the concept of Trade credit, Bank finance and Commercial paper. How these are beneficial for a business. **6**

P.T.O.

Marking Scheme MS5CO18 Corporate Finance

Q.1	i.	Time value of money supports the comparison of cash flows recorded at different time period by:		**1**
		(c) Using either (a) or (b)	1 Mark	
	ii.	The objective of wealth maximization takes into account:		**1**
		(d) All of these	1 Mark	
	iii.	Funds required for purchasing current assets is an example of		**1**
		(c) Working capital requirement	1 Mark	
	iv.	Under hire purchase system who has the right of sell __________.		**1**
		(c) Hire Vendor	1 Mark	
	v.	In weighted average cost of capital, a company can affect its capital cost through:		**1**
		(d) All of these	1 Mark	
	vi.	The term EBIT stands for:		**1**
		(c) Earning Before Interest and Tax	1 Mark	
	vii.	Having defined working capital as current assets, it can be further classified according to __________.		**1**
		(d) Components and time	1 Mark	
	viii.	Maximum maturity days of holding commercial paper are:		**1**
		(b) 270 days	1 Mark	
	ix.	Modigliani and Miller argue that the dividend decision __________.		**1**
		(a) Is irrelevant as the value of the firm is based on the earning power of its assets.	1 Mark	
	x.	A payment of either cash or stock out of a corporation's earnings to a firm's owners is called		**1**
		(d) Dividend	1 Mark	
Q.2	i.	2 points of scope of financial management.	1 Mark each (1 Mark*2)	**2**
	ii.	8 points difference	1 Mark each (1 Mark*8)	**8**
OR	iii.	For correct calculation	2 Marks each (2 Marks*4)	**8**
Q.3	i.	2 short term sources of finance	2 Marks	**2**
	ii.	Pointwise explanation	2 Marks each (2 Marks*4)	**8**
OR	iii.	Pointwise explanation	4 Marks each (4 Marks*2)	**8**
Q.4	i.	For correct calculation	2 Marks each (2 Marks*2)	**4**
	ii.	For correct calculation	2 Marks each (2 Marks*3)	**6**
OR	iii.	Pointwise explanation	3 Marks each (3 Marks*2)	**6**
Q.5	i.	4 point of explanation	1 Mark each (1 Mark*4)	**4**
	ii.	For correct calculation	6 Marks	**6**
OR	iii.	Pointwise explanation	2 Marks each (2 Marks*3)	**6**
Q.6		Attempt any two:		
	i.	Definition	1 Mark	**5**
		4 points explanation	1 Mark each (1 Mark*4)	
	ii.	Pointwise explanation	2.5 Marks each (2.5 Marks*2)	**5**
	iii.	For correct calculation	2.5 Marks each (2.5 Marks*2)	**5**