

Enrollment No.....



Knowledge is Power

Branch/Specialisation: Management

Duration: 3 Hrs.

Maximum Marks: 60

Faculty of Management Studies

End Sem (Even) Examination May-2019

MS5CO08 Corporate Finance

Programme: MBA

Branch/Specialisation: Management

Duration: 3 Hrs.

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) (d) maximisation of share holder's wealth
(ii) (d) compound interest
(iii) (d) zero coupon
(iv) (b) Long term source
(v) (d) 30.22%
(vi) (c) 4%
(vii) (b) All current Assets
(viii) (d) All of these
(ix) (d) EBIT / EBT
(x) (g) walter model

Q 2 (i) 1 mark for each finance function
describe property $1 \times 4 = 4$ marks

2(ii) 1 mark for each point $1 \times 6 = 6$ marks,
emerging Roles describes property

2(iii) (a) 3 marks

$$f.v = p.v \left(1 + \frac{r}{n}\right)^{n \times t}$$

$$f.v = 5000 \left(1 + \frac{0.12}{4}\right)^{4 \times 5}$$

$$= 5000 (1.03)^{20}$$

$$= 9030.55 \text{ Rs.}$$

2(ii)(b) 3 marks

$$\begin{aligned} FV &= PV(1+r)^n \\ &= 20000(1.10)^4 \\ &= 20000(1.4641) \\ &= 29282 \text{ £s.} \end{aligned}$$

Q 3(i) 1 mark for each formulae
Point $\times 4 = 4$ marks

3(ii) 3 marks for share capital

3 marks for debenture capital

$$3 + 3 = 6 \text{ marks}$$

3(iii) 2 marks for lease demising

2 marks for hire purchase demising

2 marks for Example of financial
Evaluation of Lease

$$2 + 2 + 2 = 6 \text{ marks}$$

Q 4(i) 2 marks of cost of capital meaning

2 marks for cost of equity calculation

$$2 + 2 = 4 \text{ marks}$$

4(ii) 3 marks for before tax solution

3 marks for after-tax solution

WACC before tax

Source	Amount	Cost	Weight	WACC
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Equity	10,00,000	14%	.50	7%
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12% preference	6,00,000	12%	.30	3.6%
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8%, debenture	4,00,000	8%	.20	1.6%
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Cost of Capital = 12.2%

(2)

W.A.C.C After tax

	Amt.	Cost	Weight	W.A.C.C
Equity	10,00,000	14%	.5	7%
12% preference	6,00,000	12%	.3	3.6%
8% Debenture	4,00,000	4.8%	.2	9.6%

Cost of Capital after tax 11.56%

$$\text{Cost of debt After tax} = I(1-t)$$

$$= 8\% \cdot (1 - .40)$$

$$= 4.8\%$$

Q.4 (ii) 1.5 mark each for Plan A BC
 1.5 marks for best plan suggestion
 financial plan statement

Particulars	I	II	III
EBIT	10,00,000	10,00,000	10,00,000
Lns' Interest	—	3,00,000	—
EBT	10,00,000	7,00,000	10,00,000
Lns' Tax @ 40%	4,00,000	2,80,000	4,00,000
EAT	6,00,000	4,20,000	6,00,000
Lns' pref. Dividend	—	—	3,50,000
Earnings per	6,00,000	4,20,000	2,50,000
Equity share (A)	35,000	10,000	10,000
No. of equity shares (B)	17.14	4.2	25

Suggestion = alternatives II is best because
 It's EPS is high among three alternative

$$1.5 \times 3 + 1.5 \times 1 = 6 \text{ marks}$$

Q 5(i) 1 mark for each full dimensioned
determination $1 \times 4 = 4$ marks

5(ii)

Statement of working capital

Particulars Amts

Current Assets (A)

(1) Raw material stock

$$25000 \times \frac{2}{12} \times 20 = 83333$$

(2) WIP

$$Rm = \left[\frac{1}{12} \times 25000 \times 20 \right] \times 100\% = 41667$$

$$\text{Labour} \left[\frac{1}{12} \times 25000 \times 5 \right] \times 50\% = 5208$$

$$\text{Overhead} \left[\frac{1}{12} \times 25000 \times 5 \right] \times 50\% = 15625$$

(3) finished goods

$$\frac{1}{12} \times 25000 \times 40 = 83333$$

$$(4) Debtors = \frac{3}{12} \times 25000 \times 40 = 250,000$$

$$(5) Cash \qquad \qquad \qquad = 20000$$

$$\text{In W.C.} \qquad \qquad \qquad 499166$$

Current Liabilities (B)

$$\text{Creditors} = \frac{2}{12} \times 25000 \times 20$$

$$(6) \qquad \qquad \qquad 83333 \qquad \qquad \qquad 83333$$

$$\text{Working Capital} \qquad \qquad \qquad (A - B) \qquad \qquad \qquad 4,15,833$$

1 mark for each point calculation $1 \times 5 = 5$

1 mark for footer W.C. calculation

Total (6) 4

Q 5(iii)

$$(a) EoQ = \sqrt{\frac{2AO}{c}}$$

$$= \sqrt{\frac{2 \times 2000 \times 1000}{30 \times 25}}$$

$$= \sqrt{\frac{2 \times 2000 \times 1000}{7.5}}$$

$$= \sqrt{\frac{4,000,000}{7.5}}$$

$$= 730 \text{ units}$$

(b) No. of orders per year

$$= \frac{2000}{730} = 2.73$$

= 2.73 or 3 orders

Time difference in month

$$= \frac{12}{3} = 4 \text{ months}$$

Time difference in days

$$= \frac{365}{3} = 121.66 \text{ or } 122 \text{ days}$$

4 months for EoQ

2 months for no. of orders

$$4 + 2 = 6 \text{ months}$$

Q. 6 (i)

1 mark for each factor

$$1 \times 4 = 4 \text{ marks}$$

6(ii) 3 marks for each factor described
model $3 \times 2 = 6 \text{ marks}$

6(iii) Statement

Sales 5,00,000
Less V.Cost for 3,00,000

Contribution 2,00,000

- fixed cost 50,000

EBIT 1,50,000

- Interest 30,000

EBT 1,20,000

$$\text{Operating Leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{2,00,000}{150,000} = 1.33$$

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{150,000}{1,20,000} = 1.25$$

$$\text{Combined Leverage} = \frac{\text{Contribution}}{\text{EBT}} = \frac{2,00,000}{1,20,000} = 1.67$$

or or X f.l.

$$1.33 \times 1.25 = 1.67 \text{ Approx}$$

1.5 marks for statement $1.5 \times 1 = 1$ 1.5 marks for each leverage $1.5 \times 3 = 4.5$