Total No. of Questions: 21

Enrollment No : ____________________

MEDICAPS UNIVERSITY

Faculty of Management Studies

End Semester Examination May 2025

MS5CO23 Corporate Finance

Programme	:	MBA	**Branch/Specialisation**	:	-
Duration	:	3 hours	**Maximum Marks**	:	60

Note: *All questions are compulsory. Internal choices, if any, are indicated. Assume suitable data if necessary. Notations and symbols have their usual meaning.*

Section 1 (Answer all question(s))

Marks CO BL

Q1. A sum of ₹10,000 is to be received after 3 years. If the discount rate is 10% per annum, what is its present value? **1 1 3**

- (●) ₹7,513
- ( ) ₹8,415
- ( ) ₹6,921
- ( ) ₹9,000

Q2. Which of the following is NOT an objective of financial management? **1 1 2**

- ( ) Profit Maximization
- ( ) Wealth Maximization
- (●) Ensuring Customer Satisfaction
- ( ) Financial Stability

Q3. A firm has an EBIT of ₹6,00,000 and pays ₹1,50,000 as interest. What is the financial leverage? **1 4 4**

- ( ) 1.50
- ( ) 2.00
- (●) 1.33
- ( ) 1.75

Q4. Which of the following is a not correct statement between equity shares and debentures? **1 2 2**

- ( ) Equity shareholders receive dividends, while debenture holders do not.
- (●) Debentures represent ownership, while equity shares represent borrowed funds.
- ( ) Equity shareholders have voting rights, while debenture holders do not.
- ( ) Debenture holders bear less risk than equity shareholders.

Q5. A company pays a dividend of ₹6 per share, and its current market price is ₹50. If the expected growth rate of dividends is 5%, what is the cost of equity? **1 2 3**

- ( ) 14%
- (●) 17%
- ( ) 16%
- ( ) 12%

Q6. Which of the following is NOT a component of the cost of capital? **1 2 2**

- ( ) Cost of Equity
- ( ) Cost of Retained Earnings
- (●) Cost of Assets
- ( ) Cost of Debt

Q7. An investment of ₹1,00,000 generates annual cash inflows of ₹30,000 for 5 years. If the discount rate is 10%, what is the approximate NPV? **1 3 1**

- (●) ₹13723.60
- ( ) ₹25,000
- ( ) ₹15,000
- ( ) ₹18,000

Q8. Which of the following is a primary reason why capital budgeting is important? **1 3 1**

- ( ) It helps in daily operational decision-making
- (●) It ensures a company's long-term profitability and growth
- ( ) It focuses only on minimizing expenses
- ( ) It deals only with short-term investments

Q9. A company has the following details: 1 3 3

- Cash: ₹50,000
- Inventory: ₹70,000
- Accounts Receivable: ₹80,000
- Current Liabilities: ₹1,20,000

What is the working capital?

- (●) ₹80,000
- ( ) ₹1,00,000
- ( ) ₹50,000
- ( ) ₹70,000

Q10. Which of the following statements about working capital management is true? 1 5 4

- ( ) A company with excess working capital always performs better
- (●) Poor working capital management can lead to liquidity problems
- ( ) Working capital only includes long-term liabilities
- ( ) It is not necessary for a company's daily operations

Section 2 (Answer all question(s))

Marks CO BL

Q11. Explain the difference between profit maximization and wealth maximization as financial objectives. 2 1 2

Rubric	Marks
Difference	2

Q12. (a) A company is evaluating two investment options: 5 3 3

(i) Option A: ₹50,000 investment grows at 10% annually for 3 years.

(ii) Option B: ₹50,000 invested in a project that provides ₹20,000 per year for 3 years, discounted at 10%.

As a finance manager, calculate the future value of Option A using compounding and the present value of Option B using discounting. Based on your calculation, suggest which option is financially better.

Rubric	Marks
Option A= 66550	2
Option B= 49740	2
Explanation	1

(OR)

(b) XYZ Ltd. is a company with a structured finance department where the finance manager is responsible for key financial functions such as investment, financing, and dividend decisions. The CEO believes that the finance department only deals with fund allocation, but the finance manager argues that financial management plays a strategic role in decision-making across departments.

Based on the above case, answer the following:

(i) Discuss the functions of the finance department and its role in an organization.

(ii) Explain how financial management interfaces with other disciplines like marketing, operations, and strategy.

Rubric	Marks
Discuss the **functions of the finance department** and its role in an organization.	3
Explain how financial management **interfaces with other disciplines** like marketing, operations, and strategy.	2

Q13. Discuss the emerging role of finance manager. **3 3 2**

Rubric	Marks
the emerging role of finance manager.	3

Section 3 (Answer all question(s))

Marks CO BL

Q14. ABC Ltd. is a new startup looking for funding to expand its operations. The founders are considering taking either a bank loan or issuing equity shares but are unsure which is the better option. As a financial advisor, suggest which option is preferable and why. **3 1 3**

Rubric	Marks
Explanation	3

Q15. (a) XYZ Ltd. is planning to raise ₹50 crores for expansion. The company has two options: **7 3 3**

- Issue Debentures at a 10% annual interest rate.
- Issue Preference Shares with a fixed dividend of 8%.

The company wants to minimize its cost of capital while maintaining financial flexibility.
(i) Explain the characteristics and differences between debentures and preference shares.
(ii) Based on future considerations which financing option should XYZ Ltd. choose? Justify your answer.

Rubric	Marks
Characteristics and differences between debentures and preference shares.	4
Based on future considerations **which financing option should XYZ Ltd. choose**? Justify your answer.	3

(OR)

(b) POQ Ltd. provides the following financial information for the year:

- Operating Leverage (OL) = 1.8
- Financial Leverage (FL) = 1.5
- Combined Leverage (CL) = 2.7
- Sales Revenue = ₹10,00,000
- Variable Cost = ₹4,00,000
- Retained Earnings at the Beginning of the Year = ₹1,50,000
- Dividend Paid = ₹50,000

Prepare an income statement showing the calculation of:
(i) EBIT (Operating Profit), EBT (Net Profit before Tax), and Net Profit using the given leverage values.
(ii) Retained Earnings at the End of the Year

Rubric	Marks
a) **EBIT (Operating Profit)= Rs. 333331, EBT (Net Profit before Tax) = Rs. 222222, and Net Profit** using the given leverage values = Rs. 155555.	5
b) **Retained Earnings at the End of the Year = 150000**	2

Section 4 (Answer all question(s))

Marks CO BL

Q16. Explain any three key determinants of the cost of capital and their impact on a company's financing decisions. **3 3 2**

Rubric	Marks
Three key determinants of the cost of capital and their impact on a company's financing decisions.	3

Q17. (a) ABC Ltd. is considering different financing options to fund its expansion. The company currently has the following capital structure: **7 3 3**

- Equity Capital: ₹40,00,000
- Preference Capital: ₹10,00,000
- Debt: ₹20,00,000

The company's cost of different capital components is as follows:

- Cost of Equity (Ke) = 12%
- Cost of Preference Capital (Kp) = 10%
- Cost of Debt (Kd) = 8% (after tax)

(i) Calculate the Weighted Average Cost of Capital (WACC) for ABC Ltd.
(ii) Discuss why WACC is an important metric in financial decision-making.

Rubric	Marks
a) Calculate the **Weighted Average Cost of Capital (WACC)** for ABC Ltd. = 10.56%.	5
b) Discuss why WACC is an important metric in financial decision-making.	2

(OR)

(b) Calculate the cost of capital in the following cases:
(i) X Ltd. issues 12% Debentures of face value Rs. 100 each and realizes Rs. 95 per Debenture. The Debentures are redeemable after 10 years at a premium of 10%.
(ii) Y. Ltd. issues 14% preference shares of face value Rs. 100 each Rs. 92 per share. The shares are repayable after 12 years at par.

Rubric	Marks
ii) Y. Ltd. issues 14% preference shares of face value Rs. 100 each Rs. 92 per share. The shares are repayable after 12 years at par.= 15.28%	3.5
(i)X Ltd. issues 12% Debentures of face value Rs. 100 each and realizes Rs. 95 per debenture. The Debentures are redeemable after 10 years at a premium of 10%.= 13.17%	3.5

Section 5 (Answer all question(s))

Marks CO BL

Q18. Why is capital budgeting important for an organization? Explain any three key principles of capital budgeting. **3 3 3**

Rubric	Marks
Capital budgeting important for an organization & three key principles of capital budgeting.	3

			Marks	CO	BL
Q19.	**(a)**	XYZ Ltd. is planning to invest in a new project and has two investment options:	7	4	4

1. Project A: Requires an investment of ₹10,00,000 and generates a uniform annual cash inflow of ₹3,00,000 for 5 years.
2. Project B: Requires an investment of ₹10,00,000 and generates varying cash inflows over 5 years as follows:
   - Year 1: ₹2,00,000
   - Year 2: ₹3,00,000
   - Year 3: ₹3,50,000
   - Year 4: ₹4,00,000
   - Year 5: ₹2,50,000

The company follows a payback period policy of 3.5 years for investment decisions.
(i) Calculate the Payback Period for both projects and determine which project should be selected based on the company's policy.
(ii) Mention one limitation of using the Payback Period as an evaluation technique.

Rubric	Marks
Calculate the **payback period** for both projects and determine which project should be selected based on the company's policy. 3.33 years and 3.375 years	5
Mention one limitation of using the Payback Period as an evaluation technique.	2

(OR)

(b) ABC Ltd. is evaluating an investment of ₹5,00,000 in a project that will generate the following cash inflows over the next 4 years:
- Year 1: ₹1,50,000
- Year 2: ₹1,75,000
- Year 3: ₹2,00,000
- Year 4: ₹1,50,000

The discount rate is 10%.
(i) Compute the Net Present Value (NPV) for the project. Should the project be accepted?
(ii) Briefly explain the significance of NPV in capital budgeting.

Rubric	Marks
NPV= 33726	5
significance of NPV in capital budgeting	2

Section 6 (Answer all question(s))

		Marks	CO	BL
Q20.	What are the key factors that influence the working capital requirements of a business? Explain any three.	3	3	2

Rubric	Marks
Key factor	3

Q21. (a) APR Ltd., a mid-sized manufacturing firm, has been experiencing fluctuations in its working capital requirements due to seasonal demand variations. The management is struggling to decide whether to adopt a conservative, aggressive, or moderate working capital policy to optimize its cash flow and profitability. **7 5 4**

(i) Explain the three working capital policies (Conservative, Aggressive, and Moderate) and their impact on liquidity and profitability.

(ii) If XYZ Ltd. follows an aggressive policy, what potential risks and rewards should the management consider?

(OR)

(b) A proforma cost sheet of a company provides the following particulars:

Elements of cost	Amount per unit (Rs.)
Raw material	80
Direct labour	30
Overheads	60
Total Cost	170
Profit	30
Selling Price	200

The following further particulars are available:

- Raw materials are in stock on an average for one month.
- Work-in-progress on an average for half a month.
- Finished goods are in stock on an average for one month.
- Credit allowed by suppliers is one month.
- Credit allowed to customers is two months.
- Lag in payment of wages is 1.5 weeks.
- Lag in payment of overhead expenses is one month.
- One-fourth of the output is sold against cash.
- Cash in hand and at bank is expected to be Rs. 25,000.

(i) You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

(ii) You may assume that production is carried on evenly throughout the year, wages and overheads accrue evenly and a time period of 4 weeks is equivalent to a month.

Rubric	Marks
Total Current Assets = 4 marks Total Current Liabilities = 2 marks Working Capital Requirement = 1 marks	7

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