Total No. of Questions: 20

Enrollment No : _____

MEDICAPS UNIVERSITY

Faculty of Management Studies

End Semester Examination May 2025

MS5CO33 Financial Management & 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. The finance manager is accountable for- **1 1 1**

- ○ Increase in sales
- ○ Accounting of firm
- ◉ Arrangement of financial resources
- ○ Recruitment of human resource

Q2. If inflation is 4% per year, how long will it take for prices to double? **1 2 2**

- ○ 10 years
- ○ 15 years
- ◉ 18 years
- ○ 24 years

Q3. Where the funds are required for a period of more than one year but less than five years, which sources are used? **1 1 1**

- ○ Long term sources
- ◉ Medium term sources
- ○ Short term sources
- ○ Very short-term sources

Q4. The relationship between the operating income and earnings per share is known as- **1 1 1**

- ◉ Financial leverage
- ○ Operating leverage
- ○ Composite leverage
- ○ Working capital leverage

Q5. In weighted average cost of capital, an organisation can affect its cost of capital through _____. **1 1 1**

- ○ The policy of investment
- ○ The policy of capital structure
- ○ The policy of dividends
- ◉ All of the above

Q6. If a company's EBIT is Rs. 500,000 and its interest expenses are Rs. 50,000, what is its EBT (Earnings Before Tax)? **1 2 2**

- ○ Rs. 500,000
- ◉ Rs. 450,000
- ○ Rs. 550,000
- ○ Rs. 50,000

Q7. The decision to accept or reject a capital budgeting project depends on – **1 1 1**

- ○ An analysis of the cash flows generated by the project
- ○ Cost of capital that are invested in business/project.
- ◉ Both (A) and (B)
- ○ Neither (A) nor (B)

Q8. The shorter the payback period – **1 1 1**

- ○ The riskier is the project
- ◉ The less risky is the project.
- ○ Less will the NPV of the project
- ○ More will the NPV of the project

Q9. If a company has current assets of ₹8,00,000 and current liabilities of ₹5,00,000, its Net Working Capital is: **1 2 2**

- ◉ ₹3,00,000
- ○ ₹13,00,000
- ○ ₹1,60,000
- ○ ₹5,00,000

Q10. According to the Net Income Approach, what happens to the value of a firm if it increases debt in its capital structure? **1** **1** **1**

- (•) Decreases
- ( ) Remains unchanged
- ( ) Increases
- ( ) First increases then decreases

Section 2 (Answer all question(s))

Marks CO BL

Q11. Rs. 5000 is invested in a term deposit scheme that fetches interest 6% per annum compounded quarterly. What will be the interest after one year? What is the effective rate of interest? **3** **2** **2**

Rubric	Marks
Interest after 1 year = ₹306.82 Effective Annual Rate (EAR) = 6.14%	3

Q12. (a) A landlord rents out a shop for ₹30,000 per year. As per the rental agreement, the rent will increase by 6% annually for the next 7 years. If an investor expects a return of 10% per annum, how much should they be willing to pay for this investment today? **7** **3** **3**

Rubric	Marks
27,273+26,279+25,325+24,403+23,516+22,663+21,840=₹171,299	7

(OR)

(b) What do you mean by financial management? Compare and contrast the profit maximization and wealth maximization approaches in financial management.

Rubric	Marks
meaning of Financial Management (2 Marks) Compare and contrast the profit maximization and wealth maximization approaches in financial management. (5 marks, 1 mark for each point)	7

Section 3 (Answer all question(s))

Marks CO BL

Q13. Explain any three short term sources of finance. **3** **2** **2**

Rubric	Marks
1 marks each	3

Q14. (a) A company operates under the following conditions:

A. Operational Details:

- Installed Capacity: 2,000 units
- Current Production & Sales: 50% of capacity (1,000 units)
- Selling Price per Unit: ₹20
- Variable Cost per Unit: ₹10
- Fixed Costs:
  - Situation-I: ₹4,000
  - Situation-II: ₹5,000

B. Capital Structure:

Financial Plan	Equity Capital	Debt Capital	Interest Rate on Debt
Plan-A	₹5,000	₹15,000	10%
Plan-B	₹15,000	₹5,000	10%

(i) Calculate the following for both Situations (I & II) and both Financial Plans (A & B):

- Operating Leverage
- Financial Leverage
- Combined Leverage

(ii) Analyze the risk associated with:

- Higher fixed costs (Situation-II vs. Situation-I)
- Higher debt (Plan-A vs. Plan-B)

Rubric	**Marks**
Step 1: Compute Contribution & EBIT Contribution per unit = Selling Price – Variable Cost = ₹20 – ₹10 = ₹10 Total Contribution = 1,000 units × ₹10 = ₹10,000 Situation Fixed Cost (₹) EBIT (₹) [Contribution – Fixed Cost] I 4,000 ₹10,000 – ₹4,000 = ₹6,000 II 5,000 ₹10,000 – ₹5,000 = ₹5,000 Step 2: Calculate Leverages (a) Operating Leverage (OL) = Contribution / EBIT (b) Financial Leverage (FL) = EBIT / (EBIT – Interest) (c) Combined Leverage (CL) = OL × FL Situation Plan Interest (₹) OL FL CL I A 15,000×10% = ₹1,500 1.67 1.33 2.22 I B 5,000×10% = ₹500 1.67 1.09 1.82 II A ₹1,500 2.00 1.43 2.86 II B ₹500 2.00 1.11 2.22 Step 3: Risk Analysis Situation-II (Higher Fixed Cost = ₹5,000) is riskier → Higher OL (2.00 vs 1.67). Plan-A (Higher Debt = ₹15,000) is riskier → Higher FL (1.33-1.43 vs 1.09-1.11). Combined Risk is highest in Situation-II + Plan-A (CL = 2.86).	7

(OR)

(b) Define equity shares. What are the merits and demerits of equity shares?

7 3 3

Rubric	Marks
1 Mark for definition.1 mark each for 3 merits and 1 mark each for 3 demerits	7

Section 4 (Answer all question(s))

Marks CO BL

Q15. What are the objectives of cost of capital? 4 2 2

Rubric	Marks
4 Objectives of KO (1 mark each)	4

Q16. (a) Calculate the cost of capital: 6 3 3

(i) B Ltd. issues ₹1,00,000, 8% debentures at a premium of 10%. The tax rate is 60%. Calculate the cost of debt.

(ii) A Ltd.'s shares currently trade at ₹95 in the market. When issuing new shares, the company incurs flotation costs of ₹5 per share. The expected dividend for next year is ₹4.50 per share, with dividends projected to grow at a constant 7% annual rate. Calculate cost of equity.

(iii) ABC Ltd. issues 20,000 8% preference shares of Rs. 100 each. Redeemable after 8 years at a premium of 10%. The cost of the issue is Rs. 2 per share. Calculate the cost of preference share capital.

Rubric	Marks
1) 2.91% (2 marks) 2) 12% (2 marks) 3)9.13% (2 marks)	6

(OR)

(b) The capital structure of Vikas Ltd. is as follows:

Source Book value Market value

- Equity share capital Rs. 1,000,000; Rs. 2,000,000 (200% of Book value)
- Retained earnings Rs. 500,000
- 14% Preference share capital Rs. 700,000 (At par)
- 12% Debentures Rs. 600,000 (At par)

After tax, the cost of capital of these different sources is equity share capital at 18%, retained earnings at 15%, preference share capital at 14%, and debentures at 8%. Calculate the weighted average cost of capital of the company.

Rubric	Marks
WACC=9.47%+1.97%+2.58%+1.26%=15.28%	6

Section 5 (Answer all question(s))

Marks CO BL

Q17. Explain the importance of capital budgeting. 3 2 2

Rubric	Marks
importance of Capital Budgeting. (1 mark each)	3

Q18. (a) From the following information, calculate the NPV of a business proposal:
Initial Investment in Fixed Assets Rs. 500,000
Initial Investment in Working Capital Rs.1,00,000
Salvage Value of Fixed Assets in 3 years Rs.200,000
Annual Cash inflows before tax Rs.300,000
Income tax rate 30%
Cost of capital 18%
Depreciation is to charge on the WDV method @40%.

Rubric	Marks
step 1: Initial Cash Flow: Particulars Amount Fixed Assets -500000 Working Capital -100000 Total -600000 Step 2: Annual Cash Flows: Year CFBT Dep CFAT PV@18% 1 300000 200000 *270000 228814 2 300000 120000 246000 176673 3 300000 72000 231600 140959 108000 546446 *300000 x 0.7 + 200000 x 0.3 = 210000+60000 = 270000 500000 x 40% - = 300000 x 40% - = 180000 x 40% - = 108000 300000 – 200000 = 100000 x 0.7 = 70000 + 200000 = 270000 Step 3: Terminal Cash Flows: Salvage Value 200000 Tax on capital gain (200000-108000) x 30% -27600 Working Capital 100000 Total 272400 PVF (18%,3rd) 0.609 Present Value 165892 Step 4: Net Present Value = -600000+546446+165892 = 112337 Step 5: Decision: NPV is positive hence accept the proposal	7

(OR)

(b) Calculate the average rate of return of project MNC from the following particulars:
Initial cash outlay for assets Rs.225000
Working capital required Rs.25000
Scrap value of assets after 5 years Rs.25000
Cash flow before tax :-
Year 1 Rs.80000
Year 2 Rs.100000
Year 3 Rs.160000
Year 4 Rs.160000
Year 5 Rs.50000
Tax rate is 50%. Depreciation is charged on SLM.

Rubric	Marks

		Marks	CO	BL
		7	3	3

Average Investment = $\frac{Opening + Closing}{2}$ = $\frac{250000 + 50000}{2}$ = 150000 Opening = 225000 fixed assets + 25000 working capital = 250000 Closing = 25000 fixed assets + 25000 working capital = 50000 Step 2: Year CFBT PBT PAT 1 80000 40000 20000 2100000 60000 30000 3160000120000 60000 4160000120000 60000 5 50000 10000 5000 175000 Average annual PAT = 175000/5 = 35000 Step 3: $ARR = \frac{average\ annual\ PAT}{average\ Investment}$ = $\frac{35000}{150000}$ = 23.33%	7

Section 6 (Answer all question(s))

	Marks	CO	BL
Q19. Explain any three needs of working capital.	3	2	2

Rubric	Marks
1 mark each	3

Q20. (a) Explain the various factors affecting the working capital requirements. **7 2 2**

Rubric	Marks
Seven factors affecting the working capital requirements.	7

(OR)

(b) Following is the information of Ashok Industries Ltd., Latur, for the year ending 31st Mar. 2024. You are required to calculate the working capital requirements from the following information:

Particulars	Rs.
Raw materials	160
Direct labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

Raw materials are held in stock on average for a 1-month period. Materials are in process on average for a ½-month period. Finished goods are in stock on average for a 1-month period. Credit allowed by suppliers is a 1-month period, and credit allowed to debtors is a 2-month period. The time lag in payment of wages is 1½ weeks. The time lag in payment of overhead expenses is 1 month. 1/4 of the sales are made on a cash basis. Cash in hand and at the bank is anticipated to be Rs. 50,000, and anticipated level of production Cash in hand and at the bank is anticipated to be Rs. 50,000, and the anticipated level of production amounts to 104,000 units for a year of 52 weeks.

You may assume that production is carried on evenly throughout the year and a time period of four weeks is equivalent to a month.

Rubric	Marks
Particulars Rs. Rs. I Current Assets: Cash Balance 50,000 Stock of Raw Materials (2,000×160×4) 12,80,000 Work-in-progress : Raw Materials (2,000×160×2) 6,40,000 Labour and Overheads (2,000×180×2)×50% 3,60,000 10,00,000 Finished Goods (2,000×340×4) 27,20,000 Debtors (2,000×75%×340×8) 40,80,000 Total Current Assets 91,30,000 II Current Liabilities : Creditors (2,000×Rs. 160×4) 12,80,000 Creditors for Wages (2,000×Rs. 60×1½) 1,80,000 Creditors for Overheads (2,000×Rs. 120×4) 9,60,000 Total Current Liabilities 24,20,000 Net Working Capital (CA– CL) 67,10,000	7

******