PG – 607

I Semester M.Com. (FA) Examination, March/April 2025
(CBCS Scheme) (2020 – 21 and Onwards)
FINANCIAL ANALYSIS
Paper – 1.2 : Corporate Financial Management

Time : 3 Hours Max. Marks : 70

***Instruction** : Answers should be written in **English** only.*

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**

1. a) Define corporate finance.
   b) Name any four factors which influence financial decisions in an organization.
   c) A firm has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000, fixed cost of Rs. 4,00,000 and debentures of Rs. 10,00,000 in its capital structure obtained at 10%. Calculate its financial leverage.
   d) Write a brief note on Pecking Order Theory.
   e) Give the meaning of utility theory.
   f) What is stock dividend ?
   g) What is MIRR ?
   h) State the need for separation of ownership and management in large companies.
   i) List the different types of risk involved in capital mix.
   j) Give the meaning of sensitivity analysis.

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. Explain the factors influencing Capital Budgeting Decision.

3. Prepare an estimate of working capital requirement from the following information of a trading concern.
   a) Projected annual sales 1,20,000 units
   b) Selling price Rs. 10 per unit
   c) Percentage net profit on sales 30
   d) Average credit period allowed to customers 10 weeks
   e) Average credit period allowed by suppliers 5 weeks
   f) Average stock holding in terms of sales requirements 5 weeks
   Allow 15% for contingencies.

4. Explain Walter's model of dividend decision.

5. X Ltd., is expecting an annual EBIT of Rs. 1 lakh. The company has Rs. 4 lakhs in 10% debentures. The cost of equity capital or capitalisation rate is 12.5%. You are required to calculate the total value of the firm according to the Net Income Approach.

6. Solve the following two cases :
   a) A company issues 1,000, 7% preference shares of Rs. 100 each at premium of 10% redeemable after 5 years at par. Compute the cost of preference capital.
   b) A 5 year Rs. 100 debenture of a firm can be sold for a net price of Rs. 96.50. The coupon rate of interest is 14 percent per annum, and the debenture will be redeemed at 5% premium on maturity. The firm's tax rate is 25%. Compute the after tax cost of debenture.

7. The Asbestors company belongs to a risk class of which the appropriate capitalization is 10%. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of Rs. 6 as dividend at the end of the current fiscal year, which has just begun. Answer the following question based on the MM model and the assumption of no taxes : What will be price of the shares at the end of the year if dividend is not declared; and if it is declared ?

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks. **(2×12=24)**

8. An Electric equipment manufacturing company wishes to determine the weighted average cost of capital of a project. You have been supplied with the following information :

Balance Sheet

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Equity share capital (Rs. 100 each)	12,00,000	Fixed Assets	25,00,000
Preference share capital	4,50,000	Current Assets	15,00,000
Debentures	9,00,000		
Retained earnings	4,50,000		
Current Liabilities	10,00,000		
	40,00,000		**40,00,000**

Anticipated external financing information :

1) 20 years 14% debentures of Rs. 2,500 face value, redeemable at 5% premium, sold at par, 2% flotation costs.

2) 15% preference shares : sales price Rs. 100 per share, 2% flotation cost.

3) Equity share : Sales price Rs. 115 per share. Flotation cost Rs. 5 per share.

The Corporate tax rate is 25% and expected growth in equity dividend is 8% per year. The expected dividend at the end of the next financial year is Rs. 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it.

9. Discuss how the cost of capital enters into the process of evaluating capital budgeting proposals and how it is related to various discounted cash flow techniques for determining a project's acceptability.

10. Paramount Producers Ltd. wants to raise Rs. 100 lakhs for diversification project. Current estimate of earnings before earnings and taxes from the new project is Rs. 22 lakhs p.a. Cost of debt will be 15% for amounts up to and including Rs. 40 lakhs, 16% for additional amounts up to and including Rs. 50 lakhs and 18% for additional amounts above Rs. 50 lakhs.

The equity shares (face value Rs.10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 50 lakhs are raised. The following options are under consideration of the company :

Option	**Equity**	**Debt**
1	50 percent	50 percent
2	60 percent	40 percent
3	40 percent	60 percent

Determine the earnings per share for each option and state which option the company should exercise. Tax rate applicable to the company is 25%.

11. A chemical company is considering an investment in a project that costs Rs. 5,00,000. The life of the project is 5 years and the estimated salvage value is zero. The tax rate is 25%. The company uses straight-line depreciation and the proposed project has estimated earnings before depreciation and before tax as follows :

Year	**Earnings before depreciation and tax (Rs.)**
1	1,00,000
2	1,00,000
3	1,50,000
4	1,50,000
5	2,50,000

Determine the following :

1) Payback period
2) The average rate of return
3) Net present value at 15%
4) Profitability index at 15%

The following are the present value factors at 15%.

Year	1	2	3	4	5
P. V. factor	0.870	0.756	0.658	0.572	0.497

SECTION – D

Compulsory (Skill based Question on Subject) : (1×12=12)

12. Arun is a successful businessman in the paper industry. During his recent visit to his friend's place in Mysore, he was fascinated by the exclusive variety of incense sticks available there. His friend tells him that Mysore region is known as a pioneer in the activity of Agarbathi manufacturing because it has a natural reserve of forest products especially Sandalwood to provide for the base material used in production. Moreover, the suppliers of other types of raw material needed for production follow a liberal credit policy and the time required to manufacture incense sticks is relatively less. Considering the various factors, Arun decided to venture into this line of business by setting up a manufacturing unit in Mysore. In context of the above case.

1) Identify and explain the type of financial decision taken by Arun. 6
2) Identify the three factors mentioned in the paragraph which are likely to affect the working capital requirements of his business. 6

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