

02

Roll Number: _____	
Thapar Institute of Engineering & Technology, Patiala (Deemed University) School of Humanities & Social Sciences End Semester Examination	
BE (Third year and fourth year)	Course Code: UHU008/UHU018 Course Name: Introduction to Corporate Finance
December 10, 2022	Saturday, 9:00 – 12.00 Hrs
Time: 3 Hours, M. Marks: 45	Name of Faculty: RKS, SCB, ANS
Instructions: Attempt all questions. Assume missing value (if any)	

	Question Description	Marks																					
Q.1	a) What do you mean by Cost of capital? Aadarsh Ltd issues a non-convertible debt for Rs. 500 lac. Each debt has a face value of Rs. 100 and carries a rate of interest of 15%. The interest is payable annually and the debenture is redeemable at a premium of 10% after 15 years. If Aadarsh Ltd realizes Rs. 99 per debt and corporate tax rate is 50%, what is the cost of debt to the company?	(3+4)																					
Q.2	Explain the Walter's & Gordon's models of dividend. How is it different from MM model of dividend?	(7)																					
Q.3	Explain the meaning of capital structure. Also explain the net income and net operating income approaches of capital structure.	(8)																					
Q.4	a) What do you mean by capital assets pricing model? State the limitations and drawbacks of this model. b) Assume that $R_f = 9\%$ and $R_{im} = 18\%$. If a security has a beta factor of (a) 1.4 (b) 1.0 (c) 2.3. Find out the expected return of the security.	(4+4)																					
Q.5	"Financial Management is concerned with solution of three major decisions a firm must take." Explain this statement highlighting the inter-relationship amongst these decisions.	(7)																					
Q.6	a) Explain the concept of financial leverage and operating leverage. From the following information of Rohila industries limited of financial 2020-21 and 2021-22. You are required to calculate degree of financial leverage, degree of operating leverage and degree of combined leverage. <table border="1" style="margin-top: 10px;"> <caption>Table 1: Income Statements</caption> <thead> <tr> <th></th><th>2020-21</th><th>2021-22</th></tr> </thead> <tbody> <tr> <td>Sales</td><td>₹ 1,50,00,000</td><td>₹ 2,60,00,000</td></tr> <tr> <td>Cost of goods sold</td><td>₹ 78,00,000</td><td>₹ 1,14,00,000</td></tr> <tr> <td>Administrative Expenses</td><td>₹ 15,00,000</td><td>₹ 28,00,000</td></tr> <tr> <td>Selling and Distribution Expenses.</td><td>₹ 16,00,000</td><td>₹ 19,00,000</td></tr> <tr> <td>Interest Expenses</td><td>₹ 2,50,000</td><td>₹ 3,00,000</td></tr> <tr> <td>Tax</td><td>50 % on EBT</td><td>50 % on EBT</td></tr> </tbody> </table>		2020-21	2021-22	Sales	₹ 1,50,00,000	₹ 2,60,00,000	Cost of goods sold	₹ 78,00,000	₹ 1,14,00,000	Administrative Expenses	₹ 15,00,000	₹ 28,00,000	Selling and Distribution Expenses.	₹ 16,00,000	₹ 19,00,000	Interest Expenses	₹ 2,50,000	₹ 3,00,000	Tax	50 % on EBT	50 % on EBT	(4+4)
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