



K.R. MANGALAM UNIVERSITY

THE COMPLETE WORLD OF EDUCATION

Rollno.....

End Semester Examination, December 2024 MBA (DM & IBM) SEMESTER III CORPORATE FINANCE (MCMA803)

Time: 2.5 hrs.

Max Marks: 50

Note: **All Questions are compulsory.** Marks are indicated against each question.

PART-A

Q.1 Attempt any five questions.

- (a) Calculate PV of Rs 100000 @10% for 6 Years. [CO-1] [L-1] 2
- (b) Define Time value of Money [CO-2] [L-1] 2
- (c) What is Cost of Equity [CO-3] [L-1] 2
- (d) What is Leverage [CO-3] [L-2] 2
- (e) Current Dividend Rs 10, Growth Rate 6%, Market Price 100 Calculate K_e . [CO-4] [L-2] 2
- (f) Differentiate Between NPV and IRR. [CO-5] [L-1] 2
- (g) Briefly explain Capital Structure [CO-5] [L-2] 2

2x5

PART-B

Q.2 ABC Ltd., which is expecting EBIT of Rs.1,50,000 per annum on an investment of Rs.5,00,000, is considering the finalization of the capital structure or the financial plan. The company has access to raise funds of varying amounts by issuing equity share capital, 12% preference share and 10% debenture or any combination thereof. Suppose it analyzes the following four options to raise the required funds of Rs.5,00,000.

1. By issuing equity share capital at par.
2. 50% funds by equity share capital and 50% funds by preference shares.
3. 50% funds by equity share capital, 25% by preference shares and 25% by issue of 10% debentures.
4. 25% funds by equity share capital, 25% as preference share and 50% by the issue of 10% debentures.

If ABC Ltd. belongs to the 50% tax bracket, Share Price Rs. 100

Which alternative is best?

[CO-2] [L-3] 10

OR

A choice is to be made between the two competing proposals which require an equal investment of Rs 50,000/- and are expected to generate net cash flows as under

Year	Cash Flows X	Cash Flows Y
1	25000	10000
2	15000	12000
3	10000	18000
4	Nil	25000
5	12000	8000
6	6000	4000

Cost of capital of the company is 10%. Which proposal should be selected using NPV, PI and Payback method? Suggest the best project.

[CO-2] [L-3] 10

Q.3 The ABC Company has the total capital structure of Rs. 80,00,000 consisting of: Ordinary shares (2,00,000 shares) 50.0% 10% preference shares 12.5% 14% debentures 37.5% The shares of the company sells for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share which will grow at 7% forever. Assume a 50% tax rate. You are required to Compute a weighted average cost of capital structure.

[CO-3] [L-4] 10

OR

JBC Ltd. sells goods on a gross profit of 25%. Depreciation is considered as a part of cost of production. The following are the annual figures given to you :

Sales (2 months credit) Rs. 18,00,000

Materials consumed (1 months credit) 4,50,000

Wages paid (1 month lag in payment) 3,60,000

Cash manufacturing expenses (1 month lag in payment) 4,80,000

Administrative expenses (1 month lag in payment) 1,20,000

Sales promotion expenses (paid quarterly in advance) 60,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps Rs. 1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis, assuming 15% safety margin.

[CO-3] [L-4] 10

Q.4 Differentiate between profit maximization and shareholder wealth maximization.

[CO-4][L-2]10

OR

Elaborate the Factors affecting receivables management of a Business Firm?

[CO- 4] [L-2] 10

Q.5 Given:

- Sales = ₹2,000,000
- Variable Costs = ₹800,000
- Fixed Costs = ₹400,000
- EBIT = ₹800,000 (Operating Income)
- Interest Expenses = ₹200,000

Calculate the Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), and Degree of Combined Leverage (DCL).

[CO-5] [L-3] 10

OR

A trader whose current sales are in the region of ₹6 lakhs per annum and an average collection period of 30 days wants to pursue a more liberal policy to improve sales. A study made by a management consultant reveals the following information:-

Credit Policy	Increase in collection period	Increase in sales	Present default anticipated
A	10 days	₹ 30,000	1.5%
B	20 days	₹ 48,000	2%
C	30 days	₹ 75,000	3%
D	45 days	₹ 90,000	4%

The selling price per unit is ₹3. Average cost per unit is ₹2.25 and variable costs per unit are ₹ 2. The current bad debt loss is 1%. Required return on additional investment is 20%. Assume a 360 days year.

ANALYSE which of the above policies would you recommend for adoption?

[CO-5] [L-3] 10

