This question paper contains 6 printed pages.]

Your Roll No..............

r. No. of Question Paper : 8083

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ame of the Paper : Corporate Finance

ame of the Course : **B.A. (Hons) Business Economics, 2017 (CBCS)**

mester : III

uration : 3 Hours

aximum Marks : 75

structions for Candidates

Write your Roll No. on top immediately on receipt of this question paper.

Attempt **all** questions.

Use of only simple calculators is allowed.

Marks for each question are mentioned against that question only.

The sub parts ('a & b') of a question must be done together.

Use of statistical tables is allowed

(a) Elucidate the three decision areas of Financial Management.

P.T.O.

OR

(a) How will you determine the present value of an annu
due? Explain with a suitable example.

(b) How much should you deposit at the end of each y
in an account that pays an annual interestrate of
percent, if at the end of 5 years you want Rs.2,00,
in the account?

2. (a) A company is considering an investment proposal
install a new milling controls at a cost ofRs. 50,0
The facility has a life expectancy of 5 years and
salvage value. The tax rate is 35 percent, Assume
firm uses straight line depreciation and the same
allowed for tax purposes. The estimated cash flo
before depreciation and tax (CFBT) from the investm
proposal are as follows:

Year (Rs.)	CFBT
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following:

(i) Internal rate of return

(ii) Net present value at 10 percent discount rate

(iii) Accounting Rate of Return

(b) What do you mean by profitability index? Explain with a suitable example? (15, 5)

X Ltd. has paid dividends consistently as per the following details:

Year	Amount (Rs.)
1	13.70
2	15.45
3	18.25
4	23.11
5	25.03

What will be the cost of existing as well as new equity shares if the share is currently quoted at Rs. 150 per share and the floatation cost is 10% of the selling price. The dividends are growing at a constant rate.

OR

R Ltd has he following Capital Structure:

	Book Value (Rs.)	Market Value (Rs.)
Equity Share Capital (60,000 shares of Rs. 10 each)	6,00,000	11,50,000
12% Preference Share Capital (1,000 shares of Rs. 100 each)	1,00,000	2,50,000
Reserves and surpluses	2,50,000	-
8% Debentures(2,500 debentures of Rs. 100 each)	2,50,000	2,40,000

It is given that the cost of equity is 15%, cost of Preferen[ce] Share Capital is 12 % and the Cost of Debt is 8%. Calcula[te] the WACC using both the book value weights as well [as] Market value weights. (1[…]

4. (a) XYZ Ltd. has EBIT of Rs. 5,00,000. The firm current[ly] has outstanding debts of Rs. 10,00,000 at an averag[e] cost, K_d of 10 %. Its cost of equity, K_e, is estimated t[o] be 18%.

(i) Determine the current value of the firm usin[g] the traditional approach.

(ii) Determine the overall capitalization rate K_0.

(iii) The firm is considering to issue Equity Capital of Rs. 2,00,000 in order to redeem Rs. 2,00,000 of Debt. The cost of Debt is expected to remain unaffected. However, the firm's cost of Equity Capital will be reduced to 15 % as a result of decline in leverage. Would you recommend the proposed action?

(b) R Ltd. Has 1,00,000 shares outstanding. The current market price of these shares is Rs. 25 each.the company expects a net profit of Rs.4,50,000 during the year and it belongs to a risk class with 15 % captalization rate. The company is considering a dividend of Rs. 4 per share for the current year.

(i) Will the price of the share at the end of the year in the two situations, i.e. when dividend is paid and when it is not paid be different? Determine the price.

(ii) How many new shares must the company issue if the dividend is paid and the company needs Rs. 5,00,000 for an approved investment expenditure during the year?

Use the MM model for the calculations. (10,10)

5. (a) Explain the costs associated with receivables?

OR

(a) Distinguish between Hedging and Conservati[ve] Approaches of financing current assets.

(b) From the following information, prepare the stateme[nt] of working capital:

Projected Annual Sales (units)	52,000
Selling price per unit	Rs. 50
Raw Material	40%
Direct Labour	10%
Overhead Charges	20%
Raw Material stock	Average 1 week
Work in progress	Average 4 week
Finished Goods stock	Average 1 week
Credit allowed to debtors	6 weeks
Lag in payment of wages and overheads	2 weeks
Credit allowed by suppliers	8 weeks
Cash required	Rs. 50,000

50% of the sales are on cash basis.

OR

(b) Length of operating cycle is the major determinant [o]f working capital needs of a business firm. Explain

(5,10)

(700)