Paper Name: Corporate Finance

Semester: IIIrd

<u>Assignment Questions</u>

1. Discuss the main decisions which are taken in Financial Management.
2. Explain the relevance of time value of money in financial decision making
3. A particular project has 4 year life with yearly projected net profit of ₹10,000 after charging yearly depreciation of ₹8000 in order to write off capital cost of ₹32,000. Out of the capital cost, ₹20,000 is payable immediately (year 0) and balance in next year (which will be needed for evaluation). Stock amounting to ₹6000 (to be invested in year 0) will be required throughout the project and for debtors, a further sum of ₹8000 will have to be invested in year 1. The working capital will be recouped in year 5. It is expected that the machinery will fetch a residual value of ₹2000 at the end of 4^{th} year. Income tax is payable at 40% and the depreciation is charged on writing down value of 25% per annum. Income tax is payable next year. The residual value of the machine ₹2000 also bears tax @40%. Although the profit is for 4 years, for computation of tax and realization of working capital, the computation will be required upto 5 years. Cost of capital for the company is 10%. Advise the firm.
4. What is EBIT-EPS analysis? How is it different from leverage analysis?
5. Discuss the different approaches of financing of working capital requirement.
6. What are implicit costs and how are they relevant in calculating weighted average cost of capital?
7. Why must the finance manager keep in mind the degree of financial leverage in evaluating various financing plans?
8. Liquidity and profitability are competing goals for finance manager. Comment.

<u>B.B.E. Internal Examination (2nd Year)</u>

<u>Corporate Finance</u>

Max. Marks : 50 Time: 2 Hrs.

NOTE: Attempt any 5 questions. All questions carry equal marks.

Q1. Profit Maximisation is a better criterion than wealth maximization. Do you agree? Explain.

Q2. How the financial decision making involve risk return trade off?

Q3.a) Explain the relevance of time value of money in financial decision making.

b) Retained earnings are free of cost. Do you agree?

Q4. A particular project has 4 year life with yearly projected net profit of ₹10,000 after charging yearly depreciation of ₹8000 in order to write off capital cost of ₹32,000. Out of the capital cost, ₹20,000 is payable immediately (year 0) and balance in next year (which will be needed for evaluation). Stock amounting to ₹6000 (to be invested in year 0) will be required throughout the project and for debtors, a further sum of ₹8000 will have to be invested in year 1. The working capital will be recouped in year 5. It is expected that the machinery will fetch a residual value of ₹2000 at the end of 4th year. Income tax is payable at 40% and the depreciation is charged on writing down value of 25% per annum.

Income tax is payable next year. The residual value of the machine ₹2000 also bears tax @40%. Although the profit is for 4 years, for computation of tax and realization of working capital, the computation will be required upto 5 years. Cost of capital for the company is 10%. Advise the firm.

Q5. XYZ Ltd.is considering two additional mutually exclusive projects. The after-tax cash flows associated with these projects are as follows:

Year	PROJECT A(₹)	PROJECT B(₹)
0	-100,000	-100,000
1	32,000	0
2	32000	0
3	32000	0
4	32000	0
5	32000	200,000

The required rate of return on these projects is 11%.

a) What is each project's NPV?
b) What is each project's IRR?
c) What has caused the ranking conflict?
d) Which project should be accepted? Why?

Q6. ABC Ltd. has the following book value capital structure:

	(₹ crore)
Equity Capital (₹10 each)	15
12% Preference Capital (₹100 each)	1
Retained Earnings	20
11.5% Debentures (₹100 each)	10
11% Term Loan	12.5

The next expected dividend on equity shares is ₹3.60 per share, the dividend per share is expected to grow at 7%. The market price per share is ₹40.

Preference stock, redeemable after 10years, is currently selling at ₹75 per share. Debentures, redeemable after 6 years, are selling at ₹80 per debenture. The income tax rate for the company is 40%.

Calculate the weighted average cost of capital by using:

i) Book Value weights

ii) Market value weights.

MCQ's

1-The span of time within which the investment made for the project will be recovered by the net returns of the project is known as

(A) Period of return

(B) Payback period

(C) Span of return

(D) None of the above

(B)

2-Projects with __________ are preferred

(A) Lower payback period

(B) Normal payback period

(C) Higher payback period

(D) Any of the above

(A)

3-___________ on capital is called 'Cost of capital'.

(A) Lower expected return

(B) Normally expected return

(C) Higher expected return

(D) None of the above

(B)

4-The values of the future net incomes discounted by the cost of capital are called

(A) Average capital cost

(B) Discounted capital cost

(C) Net capital cost

(D) Net present values

(D)

5-Under Net present value criterion, a project is approved if

(A) Its net present value is positive

(B) The funds are unlimited

(C) Both (A) and (B)

(D) None of the above

(C)

6-The internal Rate of Return (IRR) criterion for project acceptance, under theoretically infinite funds is: accept all projects which have

(A) IRR equal to the cost of capital

(B) IRR greater than the cost of capital

(C) IRR less than the cost of capital

(D) None of the above

(B)

7-Which of the following criterion is often preferred

(A) Net present value

(B) Profitability index

(C) Internal Rate of Return

(D) All of the above

(C)

8-The project is accepted of

(A) if the profitability index is equal to one

(B) The funds are unlimited

(C) If the profitability index is greater than one

(D) Both (B) and (C)

(D)

9-Where capital availability is unlimited and the projects are not mutually exclusive, for the same cost of capital, following criterion is used

(A) Net present value

(B) Internal Rate of Return

(C) Profitability Index

(D) Any of the above

(D)

10-A project is accepted when

(A) Net present value is greater than zero

(B) Internal Rate of Return will be greater than cost of capital

(C) Profitability index will be greater than unity

(D) Any of the above

(D)

11-With limited finance and a number of project proposals at hand, select that package of projects which has

(A) The maximum net present value

(B) Internal rate of return is greater than cost of capital

(C) Profitability index is greater than unity

(D) Any of the above

(A)

12-A project may be regarded as high risk project when

(A) It has smaller variance of outcome but a high initial investment

(B) It has larger variance of outcome and high initial investment

(C) It has smaller variance of outcome and a low initial investment

(D) It has larger variance of outcome and low initial investment

(A)

13-Following is (are) the method(s) for adjustment of risks

(A) Risk-adjusted Discounting Rate

(B) Risk Equivalence Coefficient Method

(C) Both (A) and (B)

(D) None of the above

(C)

14-The comparison of financial data of same time period of different organisations engaged in similar business.

a. Time series analysis

b. Cross-sectional analysis
c. Spatial data analysis
d. None of the above

(b)

15-An example of fixed asset is

a. Live stock
b. Value stock
c. Income stock
d. All of the above

(a)

16-The following is (are) the limitation of Economic Order Quantity assumption(s).

a. Demand may vary throughout the year
b. It assumes that the storage space is unlimited
c. Prices of materials change throughout the year
d. All of the above

(d)

17-The assets held by a business which can be converted in the form of cash, without disturbing the normal operations of a business.

a. Tangible assets
b. Intangible assets
c. Fixed assets
d. Current assets

(d)

18-The return which the company pays on borrowed funds is termed as

a. Dividend
b. Interest
c. Bonus
d. All of the above

(b)

19-The following is(are) the type(s) of capital budgeting decision(s)

a. Diversification

b. Replacements
c. Expansion
d. All of the above

(d)

20-The following is(are) the external source(s) of cash

a. Long terms loans
b. Short term borrowings
c. Issue of new shares
d. All of the above

(d)

21. Investment can be defined.

A) Person’s dedication to purchasing a house or flat

B) Use of capital on assets to receive returns

C) Usage of money on a production process of products and services

D) Net additions made to the nation’s capital stocks

B)

22. The concept of Financial management is.

A) Profit maximization

B) All features of obtaining and using financial resources for company operations

C) Organization of funds

D) Effective Management of every company

B)

23. What is the primary goal of financial management?

A) To minimize the risk

B) To maximize the return

C) To maximize the owner’s wealth

D) To raise profit

B)

24. GST is a consumption of goods and service tax based on.

A) Development

B) Dividend

C) Destiny

D) Duration

E) Destination

E)

25. The finance manager is accountable for.

A) Earning capital assets of the company

B) Effective management of a fund

C) Arrangement of financial resources

D) Proper utilization of funds

C)

26. The market value of a share is responsible for.

A) The investment market

B) The government

C) Shareholders

D) The respective companies

A)

27. The capital budget is associated with.

A) Long terms and short terms assets

B) Fixed assets

C) Long terms assets

D) Short term assets

C)

28. CAPM stands for.

A) Capital asset pricing model.

B) Capital amount printing model.

C) Capital amount pricing model.

D) Capital asset printing model.

A)

29. What does financial leverage measured?

A) No change with EBIT and EPS

B) The sensibility of EBIT with % change with respect to output

C) The sensibility of EPS with % change in the EBIT level

D) % variation in the level of production

C)

30. From the below-mentioned items which are financial assets?

A) Machines

B) Bonds

C) Stocks

D) B and C

B)