Paper / Subject Code: 66703 / Corporate Finance

(2 Hours) [Total Marks: 60]

Instructions:

i. All questions are compulsory and subject to internal choice.
ii. Figures to the right indicate full marks.
iii. Make suitable assumptions whenever required and state them.
iv. Use of simple calculator is allowed.

Q1.

A) Complete the Balance Sheet in the form given below using the undermentioned information: **[15]**

Sales	Rs. 36 Lakhs
Total asset turnover	3
Fixed asset turnover	5
Current asset turnover	7.5
Inventory turnover	20
Debtors turnover	15
Current ratio	2
Total assets/ net worth	2.5
Debt – equity	1
All turnover ratios are based on sales	

Balance sheet as on 31st March 2021

Liabilities	Rs. (in Lakhs)	Assets	Rs. (in Lakhs)
Net worth	?	Fixed assets	?
Debt	?	**Current assets:**	
Current liabilities	?	Inventories	?
		Debtors	?
		Cash and bank balance	?
Total	?	**Total**	?

OR

Q1.

B) From the following statement calculate:

i. Debt- equity ratio
ii. Proprietary ratio
iii. Solvency ratio
iv. Fixed assets to net worth ratio
v. Current assets to net worth ratio
vi. Fixed assets to long-term funds ratio

[08]

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Shareholder's Funds: 7,500 equity shares of Rs. 10 each fully paid up	75,000	**Non-Current Assets:** Fixed Assets (Less Depreciation)	2,19,810
2,500 10% Preference shares of Rs. 10 each fully paid up	25,000	**Current Assets:** Stock	49,460
Reserve and surplus	84,500	Trade debtors	11,710
Non- Current Liabilities: 7% debentures	1,00,000	Cash at bank	26,020
Current liabilities	22,500		
	3,07,000		**3,07,000**

Q1.

C) If Mahesh deposits Rs.5,000 at the end of every year in a bank for 5 years and the bank is paying 10% interest, calculate the future value of this annuity. **[07]**

Q2.

A) Modern Chemicals Ltd. requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objectives of maximizing earnings per share. It has three alternatives to finance the project by raising debt of Rs. 2,50,000 or Rs. 10,00,000 or Rs. 15,00,000 and the balance in each case by issuing equity shares. The Company's share is currently selling at Rs.150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs. 10,00,000. The funds can be borrowed at the rate of 10% up to Rs. 2,50,000, at 15% over Rs. 2,50,000 and up to Rs. 10,00,000 and at 20% over Rs.10,00,000. The tax rate applicable to the company is 50%. Which form of financing should the company choose? **[15]**

OR

Q2.

B) From the following Capital structure of Angad Ltd, calculate overall weighted average cost of capital based on **[15]**

i) Book value weights
ii) Market value weights

Source	Book Value (Rs.)	Market Value (Rs.)	After tax cost of different sources
Equity share capital	15,00,000	20,00,000	15%
Retained Earnings	5,00,000	5,00,000	12%
Preference share capital	12,00,000	15,00,000	10%
Debentures	8,00,000	10,00,000	8%

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Q3.

A) The following details of Ditya Ltd. for the financial year 2021-22. **[15]**

Operating leverage 5:1
Financial leverage 2:1
Interest charges p.a. Rs.10 lakhs
Corporate Tax rate 30%
Variable cost as percentage of sales 65%
Prepare the Income statement of the company.

OR

Q3.

B) Suraj Engineering Ltd. belongs to a risk class for which the capitalization rate is 10%. It currently has outstanding 10,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. It expects to have a net income of Rs. 10,00,000 and has a proposal for making new investments of Rs. 19,90,000. Calculate the value of the firm when dividends (i) are not paid (ii) are paid using M-M approach. **[15]**

Q4.

A) Multiple Choice Questions: **[8]**

1. Mr. Kumar pays equal instalments of Rs. 1,50,000 in the beginning of each year for 5 year @ 10% rate of return. (PV factor for 5 years @ 10% is 0.3791). What would be the present value________
   a. Rs. 62,551.5
   b. Rs. 62,051.5
   c. Rs. 62,352.5
   d. Rs. 63,052.0
2. If you invest Rs. 2,000 in a bank at simple interest of 8% p.a. What will be the amount at the end of two years?
   a. Rs. 2,320
   b. Rs.3,330
   c. Rs. 2,400
   d. Rs. 2,230
3. ________ is considered as the principle financial objective of the firm.
   a. Welfare of the society
   b. Shareholders wealth management
   c. Welfare of management
   d. General welfare of the employees
4. From the following, ________ is not a limitation of Financial Management.
   a. Non-financial objectives
   b. Cannot satisfy all the stakeholders
   c. Internal factors
   d. External factors

5. Current Ratio__________________
   a. $\frac{CA}{CL}$
   b. $\frac{BF}{PF}$
   c. $\frac{QA}{QL}$
   d. $\frac{PC+BF}{EF}$
6. COGS (cost of goods sold) ___________
   a. Closing stock + Direct Expenses- Opening stock
   b. Opening stock+ Purchase-Closing stock
   c. Opening stock+ Closing stock- Sales
   d. Closing stock + Direct Expenses- Opening stock
7. Optimum Capital structure implies a ratio of debt and equity at when _______ would be least and market value of the firm would be highest.
   a. Marginal Cost of Capital
   b. Weighted Average Cost of Capital
   c. Cost of Debt
   d. Opportunity Cost
8. The source of capital used to get financial leverage is_______
   a. Fixed Deposit
   b. Equity Capital
   c. Debt Capital
   d. Short term loans

Q4.

B) True or False: **[7]**

1. A bond carries a specific interest rate known as the coupon rate.
2. PV is multiplied by the compound factor to find out the future value.
3. The control function of the CFO becomes irrelevant once funding has been raised.
4. A firm's Debt/Equity ratio (D/E ratio) indicating its risk and return profile, and hence its overall value becomes an important factor.
5. Quick Asset is equal to Current assets + (stock-prepaid expenses).
6. Price Earnings ratio is applied to determine the expected market value of the shares of a company.
7. Operating leverage analyses the relationship between sales level and EPS.

OR

Q4.

C) Write short notes: (Any Three) **[15]**

a. Profit maximization
b. Annuity
c. Stock Turnover Ratio
d. Cost of Retained Earnings
e. Net Operating Income Approach

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