

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER –II-EXAMINATION – WINTER-2022

Subject Code: 1529602
Subject Name: Corporate Finance
Time:02:30 PM to 05:30 PM

Date: 14/12/2022

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

	Question Text and Description (2*7=14)		Marks														
Q.1	(a) Financial Management (b) EOQ (c) Cash Budget (d) Finance (e) Cost of Capital (f) Discounting (g) Compounding		14														
Q.2	(a)	What is financial management? Why is wealth maximization important than profit maximization.	07														
	(b)	Suppose Mr. X deposits each year Rs. 500, Rs. 1000, Rs.1500, Rs.2000, and Rs.2500 in his savings bank account for 5 years. The interest rate is 5 %. He wishes to find the future value of his deposits at the end of the fifth year?	07														
		OR															
	(b)	The following details are available from the cost sheet of the company <table style="margin-left: 20px;"> <tr> <td>Particulars</td> <td>Amount per unit(Rs)</td> </tr> <tr> <td>Raw material</td> <td>80</td> </tr> <tr> <td>Direct labour</td> <td>30</td> </tr> <tr> <td>Overhead</td> <td>60</td> </tr> <tr> <td>Total cost</td> <td>170</td> </tr> <tr> <td>Profit</td> <td>30</td> </tr> <tr> <td>Selling Price</td> <td>200</td> </tr> </table> <p>The following other details are available (i) Raw materials in stock, on an average one month; Materials in process, on an average half a month; finished goods in stock, on an average one month. (ii) Credit allowed by suppliers is one month and credit allowed to debtors is two months; lag in payment of wages is one and a half weeks; lag in payment of overhead expenses is one month; one fourth of the output is sold against cash; cash in hand and at bank is expected to be Rs 25000. You are required to prepare a statement showing working capital needed to finance a level of activity of 1,04,000 units of production.</p>	Particulars	Amount per unit(Rs)	Raw material	80	Direct labour	30	Overhead	60	Total cost	170	Profit	30	Selling Price	200	07
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Q.3	(a)	Determine various Factors influencing working capital in detail.	07														

	(b)	The following information is given about R Limited Particulars Rs in lacs EBIT 1120 PBT 320 Fixed Cost 700 From this information you are required to calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of Total Leverage for the company.	07																												
		OR																													
Q.3	(a)	Explain Walter, Gordon and M.M model of dividend decision.	07																												
	(b)	What is the balance in an account at the end of 10 years if \$2,500 is deposited today and the account earns 4% interest, compounded annually? Quarterly?	07																												
Q.4	(a)	Explain in detail the factors that influence Cash Budget in business.	07																												
	(b)	The EPS of a company is Rs. 16. The market capitalization rate applicable to the company is 12.5 per cent. Retained earnings can be employed to yield a return of 10 per cent. The company is considering a pay-out of 25 per cent, 50 per cent and 75 per cent. Which of these would maximize the wealth of shareholders as per Walter's model?	07																												
		OR																													
Q.4	(a)	Explain the factors affecting dividend decision?	07																												
	(b)	A company has to choose one of the following two mutually exclusive projects A&B. Project A requires Rs. 20,000/- and Project B requires Rs. 15,000/- as initial investment. The firms cost of capital is 10%. Suggest which project should be accepted under NPV method. Following are the net cash flows: <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Year</th> <th style="text-align: center;">1</th> <th style="text-align: center;">2</th> <th style="text-align: center;">3</th> <th style="text-align: center;">4</th> <th style="text-align: center;">5</th> </tr> </thead> <tbody> <tr> <td>Project A</td> <td style="text-align: center;">4200</td> <td style="text-align: center;">4800</td> <td style="text-align: center;">7000</td> <td style="text-align: center;">8000</td> <td style="text-align: center;">4000</td> </tr> <tr> <td>Project B</td> <td style="text-align: center;">4200</td> <td style="text-align: center;">4500</td> <td style="text-align: center;">4000</td> <td style="text-align: center;">5000</td> <td style="text-align: center;">4000</td> </tr> </tbody> </table> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Year 1</th> <th style="text-align: left;">Year 2</th> <th style="text-align: left;">Year 3</th> <th style="text-align: left;">Year 4</th> <th style="text-align: left;">Year 5</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">0.909</td> <td style="text-align: center;">0.826</td> <td style="text-align: center;">0.751</td> <td style="text-align: center;">0.683</td> <td style="text-align: center;">0.621</td> </tr> </tbody> </table> Calculate: net present value Present value Rs.1/- @ 10% (discount factor) using present value tables	Year	1	2	3	4	5	Project A	4200	4800	7000	8000	4000	Project B	4200	4500	4000	5000	4000	Year 1	Year 2	Year 3	Year 4	Year 5	0.909	0.826	0.751	0.683	0.621	07
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Q.5		<p>CASE STUDY:</p> <p>Raghav and company have assets of Rs. 1,000,000 financed wholly by equity share capital. There are 100,000 shares outstanding with a book value of Rs.10 per share. Last year's profit before taxes was Rs.250, 000. The tax rate is 35 per cent. The company is thinking of an expansion programme that will cost `500,000. The financial manager considers the three financing plans: (i) selling 50,000 shares at `10 per share, (ii) borrowing `500,000 at an interest rate of 14 per cent, or (iii) selling `500,000 of preference shares with a dividend rate of 14 per cent. The profit before interest and tax are estimated to be `375,000 after expansion.</p>		
	(a)	The after-tax rate of return on assets for each of the three financing alternatives.		07
	(b)	The earnings per share for each of the three financing alternatives.		07
		OR		
Q.5	(a)	The rate of return on shareholders' equity for each of the three financing alternatives.		07
	(b)	The after-tax rate of return on assets before alternatives.		07
