

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA– SEMESTER –II-EXAMINATION – WINTER-2023

Subject Code:1529602**Date: 12-01-2024****Subject Name: Corporate Finance****Time:02:30 PM TO 05:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

Q. No.		Marks
Q.1	(a) Financial Management (b) Cost of Capital (c) Capital Budgeting (d) Working Capital (e) Equity (f) Debenture (g) Bonds	14
Q.2	(a) What is the scope of financial management? Why is finance the life blood of any business.	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) A company has assets of ₹1,000,000 financed wholly by equity share capital. There are 100,000 shares outstanding with a book value of ₹10 per share. Last year's profit before taxes was ₹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. Find the EPS for the three alternatives.	07
Q.3	(a) Define working capital. What factors impact working capital?	07
	(b) Assuming the rate of return expected by investor is 11%; internal rate of return is 12%; and earnings per share are Rs. 15, calculate price per share by Gordon Approach method if dividend payout ratio is 10% and 30%.	07
OR		
Q.3	(a) A Company expects a net income of Rs. 1,00,000. It has Rs. 2,50,000, 8% debentures. The equality capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax). (b) If the debenture debts are increased to Rs. 4,00,000. What shall be the value of the firm and the overall capitalization rate?	07
	(b) Explain the irrelevance and relevance dividend theories.	07

- Q.4** (a) ABC Ltd. has the following capital structure. Rs. Equity (expected dividend 12%) 10,00,000 10% preference 5,00,000 8% loan 15,00,000 You are required to calculate the weighted average cost of capital, assuming 50% as the rate of income-tax, before and after tax. **07**
- (b) Explain the methods of Capital Budgeting in detail. **07**

OR

- Q.4** (a) Find out the economic order quantity and the number of orders per year from the following information: Annual consumption: 36,000 units Purchase price per units: Rs. 54. Ordering cost per order: Rs. 150 Inventory carrying cost is 20% of the average inventory. **07**
- (b) Explain the sources of Long term and short term finance. **07**

Q.5 CASE STUDY:

Madhav limited has proposals under situations 1 and 2 and the financial plans for X and Y respectively from the following information relating to the operating and capital structure of a company. Installed capacity is 5000 units. Annual Production and sales at 60% of installed capacity. Selling price per unit Rs. 25 Variable cost per unit Rs. 15 Fixed cost in Situation 1: Rs. 10,000. Fixed cost in Situation 2 : Rs. 12,000

Capital Structure	X	Y
	Financial Plan 1	Financial Plan 2
Equity	Rs. 25000	Rs. 50,000
Debt @10%	Rs. 50,000	Rs. 25,000
Total	Rs. 75,000	Rs. 75000

- (a) Calculate the operating leverage for both the financial plans. **07**
- (b) Which plan is suitable X or Y? **07**

OR

- Q.5** (a) Calculate financial leverage for both the financial plans. **07**
- (b) Calculate the combined leverage for both the financial plans **07**
