| Roll No. | | | | | | | | | | | | |
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# PRESIDENCY UNIVERSITY

## BENGALURU

## Mid - Term Examinations – JUNE 2025

**Date:** 04 -06- 2025 **Time:** 09:30 am – 11:00 am

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| **School:** SOM-PG | | | **Program:** MBA | | |
| **Course Code :** MBA2042 | | | **Course Name :** Corporate Finance | | |
| **Semester**: II | | | **Max Marks**: 50 | **Weightage**: 25% | |
| **CO – Levels** | **CO1** | **CO2** | **CO3** | **CO4** | **CO5** |
| **Marks** | **31** | **19** | | | |

**Instructions:**

*(i)* ***Read all questions carefully and answer accordingly.***

*(ii)* ***Do not write anything on the question paper other than roll number.***

## Part- A

**Answer ALL the Questions. Each question carries 3marks.** **5Q x 3M=15 Marks**

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|---|---|---|---|---|
| **1** | Why do individuals generally exhibit a time preference for money? Explain the key reasons behind this preference and how it influences financial decision-making? | **3 Marks** | **L1** | **CO1** |
| **2** | Do you agree with the statement that "Equity capital is cost-free"? Why or why not? Discuss the concept of the cost of equity, factors influencing it, and how it compares to other forms of financing in terms of financial and strategic implications for a company. | **3 Marks** | **L1** | **CO2** |
| **3** | Exactly ten years from now Sri Chand will start receiving a pension of ₹3,000 a year. The payment will continue for sixteen years. How much is the pension worth now, if Sri Chand's interest rate is 10 per cent? | **3 Marks** | **L1** | **CO1** |
| **4** | A 10-year, ₹1000 debenture of a firm can be sold for a net price of ₹977. The rate of interest is 14 per cent per year, and bond will be redeemed at par on maturity. The firm's tax rate is 30 per cent. Compute the after-tax cost of the debenture. | **3 Marks** | **L2** | **CO2** |
| **5** | The current market price of a company's share is ₹120 and the expected dividend per share next year is ₹12. If the dividends are expected to grow at a constant rate of 8 per cent, what is the company's cost of equity? | **3 Marks** | **L2** | **CO2** |

## Part- B

**Answer all the Questions** **2Qx10M = 20 Marks**

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| **6.** | | In a corporate setting, shareholders and managers often have distinct objectives, leading to potential conflicts of interest. Shareholders, as owners of the company, typically prioritize long-term value creation and wealth maximization, whereas managers, responsible for daily operations and decision-making, may pursue personal benefits such as job security, higher compensation, or short-term performance goals. Under what circumstances do such conflicts between shareholders and managers arise? What specific factors contribute to managerial actions that deviate from shareholder interests? Additionally, how does the wealth maximization goal serve as an effective mechanism to align managerial decisions with shareholder expectations and mitigate agency problems? | **10 Marks** | **L1** | **CO1** |
| **Or** | | | | | |
| **7.** | A | AB Limited is creating a sinking fund to redeem its preference capital of ₹5 lakh issued on 6 Feb 2025 and maturing on 5 jan 2026. The first annual payment will be made on 6 feb 2025. The company will make equal annual payments and expects that the fund will earn 12 per cent per year. How much will be the amount of sinking fund payment? | **05 Marks** | **L1** | **CO1** |
| | B | Your father has promised to give you ₹100,000 in cash on your 25th birthday. Today is your 16th birthday. He wants to know two things: (a) If he decides to make annual payments into a fund after one year, how much will each have to be if the fund pays 8 per cent? (b) If he decides to invest a lump sum in the account after one year and let it compound annually, how much will the lump sum be? (c) If in (a) the payments are made in the beginning of the year, how much will be the value of annuity? Assuming that interest is 8 per cent in each case. | **05 Marks** | **L1** | **CO1** |
| **8.** | | A firm finance all its investments by 40 per cent debt and 60 per cent equity. The estimated required rate of return on equity is 20 per cent after-taxes and that of the debt is 8 per cent after-taxes. The firm is considering an investment proposal costing ₹40,000 with an expected return that will last forever. What amount (in rupees) must the proposal yield per year so that the market price of the share does not change? Show calculations to prove your point. | **10 Marks** | **L2** | **CO2** |
| **Or** | | | | | |
| **9.** | | A firm has to buy 2 machineries for their business expansion. They had a reserve of Rs.5,00,000 but the cost of machineries are ₹6,00,000. Now, they are forced to borrow Rs.1,00,000 at an interest rate of 15% p.a. and the loan is to be repaid in 5 equal instalments payable at the end of each year. The term of loan is 5 years. Prepare loan amortization schedule. | **10 Marks** | **L2** | **CO1** |

## Part- C

**Answer the following question** **1Qx15M=15Marks**

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| **10.** | Assuming that a firm pays tax at a 50 percent rate, compute the after-tax cost of capital in the following cases:<br>(i) A 8.5 per cent preference share sold at par.<br>(ii) A perpetual bond sold at par, coupon rate of interest being 7 percent.<br>(iii) A ten-year, 8 per cent, ₹1000 par bond sold at ₹950 less 4 percent underwriting commission.<br>(iv) A preference share sold at ₹100 with a 9 per cent dividend and a redemption price of ₹110 if the company redeems it in five years.<br>(v) An ordinary share selling at a current market price of ₹120, and paying a current dividend of ₹9 per share, which is expected to grow at a rate of 8 percent.<br>(vi) (An ordinary share of a company, which engages no external financing, is selling for ₹50. The earnings per share are ₹7.50 of which sixty per cent is paid in dividends. The company reinvests retained earnings at a rate of 10 percent. | **15 Marks** | **L1** | **CO1** |

# ***** BEST WISHES *****