PRESIDENCY UNIVERSITY, Bengaluru

School of Management

Comprehensive Examination

Corporate Finance

Course : MBA A 102	II Semester 2015-2016	[Closed Book]
Max. Marks: 80	Max. Time: 3 Hours	Weightage: 40%

Part – A **[10 X2M= 20M]**

1. Answer the following

a. Define the primary goal of Financial Management

b. Define Present Value of "Growing Annuity" and state its formula

c. State the different Valuation Concepts associated with an Asset

d. Give the relationship between Coupon Rate, Required Yield and Bond Price

e. Define "Portfolio Risk". State the components of Total Risk

f. State five [5] Investment Criteria while evaluating Capital Projects

g. Define "Cost of Capital". State the formula of "Weighted Average of Cost of Capital"

h. Differentiate between "Market Risk" and "Unique Risk" and define " Beta"

i. Distinguish between "Operating Cycle" and "Cash Conversion Cycle"

j. State two characteristics of Current Assets

Part B **[6 X 5M=30M]**

Answer the following questions

2. a. State the "Building Blocks of Modern Finance"
b. Discuss, diagrammatically, "Risk-Return Trade-Off" in terms of financial decision making.

3. Define "Risk". Explain, in detail, the types of Risks associated with a Business

4. The shares of a Company are selling at Rs. 40 per share and it had paid a dividend of Rs. 4 per share last year. The investor's market expects a growth rate of 5% per year. You are required to

a. Compute the Company's Equity Cost of Capital

b. If the anticipated growth of rate is 7% per annum, calculate the indicated market price per share

5. a. Define the term "Perpetuity". State the formula for the Present Value of a "Perpetuity"

b. Vishnu wishes to purchase an apartment after 5 years when it is expected to cost Rs. 20,00,000. If Vishnu is to start saving from today in a scheme that offers a compound return of 12% per annum, how much must he save annually?

6. a. Discuss basic "Bond Valuation".

7. a. Discuss, briefly, the strategies involved with deciding upon the level of Current Assets to be maintained in a manufacturing industry. Highlight the consequences of the different strategies on the level of current assets

b. Explain, briefly, the kind of tradeoff involved in determining the Optimum Level of Current Assets. Represent the concept graphically.

Part C **[3X 10M=30M]**

8. Distinguish between Net Income Approach and Net Operating Income Approach when evaluating the relationship between financial leverage and cost of capital.

9. a. Discuss the various yields associated with Bond Valuation.

b. Given that a Rs. 10,000 par value bond, carrying a coupon rate of 9% is maturing in 8 years. It is now selling at Rs. 8,000 in the market. What is the Yield to Maturity [YTM] on this Bond?

10. An enterprise can make either of two investments at the beginning of 2010.Assuming required rate of return of 10% per annum. Evaluate the investment proposals as under.

a. Return of investment.
b. Discounted Payback Period
c. Net Present Value
d. Profitability Index
e. Internal Rate of Return

The forecast particulars are given below

Particulars	Proposal A	Proposal B
Cost of investment	Rs 20,000	Rs 28,000
Life	4 years	5 years
Scrap value	nil	600
Net income after depreciation and tax	**Amount(Rs)**	**Amount(Rs)**
2007	500	Nil
2008	2000	3400
2009	3500	3400
2010	2500	3400
2011	--	3400

It is estimated that each of the alternative projects will require an additional working capital of Rs 2000. Depreciation is provided at straight line method.

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Corporate Finance

Course: MBA A102
II semester 2015-16 **Test 2** **Date: 16th May 2016**
Max. Marks: 50 **Max. Time: 50 minutes** **Weightage: 25%**

Part – A **(10QX2M= 20M)**

1.Answer the following questions.

a) What is Discounted PBP?
b) Define Cost of capital?
c) How do you determine ARR?
d) What is Financing Decision?
e) State the objectives of corporate finance?
f) What is MIRR?
g) Define Discounting?
h) What is the acceptance criteria for NPV, IRR and PI?
i) Differentiate between uncertainty and Risk ?
j) What is covariance?

Part B **(3Q X 5M=15M)**

Answer the following questions

2. Calculate expected return of portfolio from the following information
Investment in share A 200000 with an expected return of 12%
Investment in share B 250000 with an expected return of 8%
Investment in share C 150000 with an expected return of 15%.

3. a) A 5 year Rs 100 debenture of a firm can be sold for a net price of Rs 96.50.The coupon rate of interest is 14% per annum and the debenture will be redeemed at 5% premium on maturity.The firms tax rate is 40%.compute the after tax cost of debenture.

b) A company issues 1000 7% preference shares of Rs 100 each at a premium of 10% redeemable after 5years at par. Compute the cost of preference capital.

4.A portfolio consists of 3 securities A,B and C. The propotion and Standard deviation of these securities are.

Security	Weights	Standard deviation
1	0.3	6
2	0.5	9
3	0.2	10

Correlation coefficients are : rab= 0.3,rac =0.5,rbc=0.6.What is the standard deviation of portfolio return?

Part C **(1QX 15M=15M)**

Answer the following question:

5. Two annually exclusive projects have projected cash flows as follows:

End of the year	Project A (Rs)	Project B (Rs)
	-20,00,000	20,00,000
1	+10,00,000	0
2	+10,00,000	0
3	+10,00,000	0
4	+10,00,000	+60,00,000

Determine the IRR and NPV of each of the project, Which project will you select? Why?

Presidency University, Bengaluru
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II Semester 2015-2016 Test 1 Course: **MBA A 102 Corporate Finance** (Closed Book)

Max Marks: 30 Max Time: 50 Min Weightage: 15 % 29 Feb 2016 **Set A**

Q 1. Answer the following in short **(5Q x 1M=5M)**

A. State the different forms of Business Organisations
B. State any three alternate goals of "Corporate Finance"
C. Define "Agency Problem" in terms of Corporate Management
D. Define "Time Value of Money".
E. Define "Present Value Interest Factor". State its formula.

Q 2. Briefly answer the following **(3Q x 5M = 15M)**

1. a) Define "Present Value of a Growing Annuity". State its formula b) John decides to save the following amounts every year for the next 6 years such that he may receive a lump sum for the education of his daughter. If the rate of return is expected to remain constant @ 12 per annum over the next 6 years how much will John get at the end of the 6th year, if payments are made at the end of each year?

Year	Cash Flow [Rs]
Y_1	14,000
Y_2	16,000
Y_3	18,000
Y_4	21,000
Y_5	24,000
Y_6	30,000

2. Discuss Risk-Return Trade-off in Financial Decisions
3. a] Define "Future Value of an Annuity". State its formula b] A Finance Company advertises that it will pay a lump sum of Rs. 4,46,500 at the end of 5 years to depositors who deposit Rs. 60,000 annually with them for 5 years. What is the interest rate offered under this Scheme? Assume that all deposits are made at the end of the respective year

Q 3 You are a Winner of a National Competition. As the prize for being the winner, you can choose any one of the following. Assume that the rate of interest is 10%.

a] You can take away Rs. 5,00,000 now
b] You can receive Rs. 10,00,000 at the end of 6 years
c] You will receive Rs. 60,000 per year forever
d] You will receive Rs. 1,00,000 annually for 10 years

Which of the above options will have the highest Present Value?

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II Semester 2015-2016 Test 1 Course: **MBA A 102 Corporate Finance**
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Max Marks: 30 Max Time: 50 Min Weightage: 15 % 29 Feb 2016 **Set B**

Q 1. Answer the following in short **(5Q x 1M=5M)**

A. State the broad areas of "Financial Management" or "Corporate Finance "
B. Define the primary goal of "Financial Management".
C. Define the "Fundamental Principle of Finance"
D. Define "Future Value Interest Factor". State its formula.
E. Distinguish between "Rule of 72" and " Rule of 69"

Q 2. Briefly answer the following **(3Q x 5M = 15M)**

1. a] State the formula for the Present Value of an "Annuity". b] What is the Present Value of the following Cash Stream if rate of interest/discount is 14% per annum?[Cash Flows happen at the end of respective year]

Year	1	2	3	4	5
Cash Flow [Rs]	5,000	6,000	8,000	9,000	8,000

2. a] Define an "Annuity" ". Explain the difference between "Ordinary Annuity" and "Annuity Due". b] Fifteen [15] annual payments of Rs. 5,000 is made into an Endowment Plan that pays 14% interest per annum. What is the value of this Annuity at the end of 15 years if the payments are made at the end of each year commencing from the first year

3. Discuss briefly the Building Blocks of Modern Finance

Q 3 Raman avails a loan of Rs. 10,00,000 for his business. The loan carries an interest rate of 15% per annum and the loan was to be repaid in 5 equal annual instalments, payable at the end of each of the next 5 years. You are required to prepare the Loan Amortisation Schedule for this Loan

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