



ID NO.	
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PRESIDENCY UNIVERSITY, BENGALURU
SCHOOL OF MANAGEMENT

Weightage: 40%

Max Marks: 100

Max Time: 3 hrs.

09 May 2018, Wednesday

ENDTERM FINAL EXAMINATION MAY 2018

Even Semester 2017-18

Course: **FIN 201 Corporate Finance**

II Sem MBA

Instructions:

- (i) *Read the question properly and answer accordingly.*
 - (ii) *Question paper consists of 3 parts.*
 - (iii) *Scientific and Non-programmable calculators are permitted*
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Part A

(5 Q x 4 M = 20 Marks)

1. What are the two important characteristics of current assets? What are their implications for working capital management?
2. State the two Miller-Modigliani propositions regarding the value of the firm and the expected return on equity.
3. Discuss the factors which are relevant for determining the dividend payout ratio.
4. What are the important dates pertaining to dividends? Describe briefly the procedural aspects of dividends.
5. Compare and contrast stock splits with bonus issue of shares.

Part B

(4 Q x 10 M = 40 Marks)

6. The relevant financial information for Xavier Ltd for the year ended 2016 is given below.

Profit & Loss A/C (₹ million)	Balance Sheet Data		
		Beginning of 2016	End of 2016
Sales	1000	Inventory	110
			120
Cost of goods sold	750	Accounts receivable	140
		Accounts payable	60
			66

Required:

- a) What is the length of the operating cycle? Assume 365 days to a year.
- b) What is the length of the cash cycle? Assume 365 days to a year.

7. A firm has a sales of ₹ 90 lakh, variable cost of 20 lakh, fixed cost of ₹ 5,00,000. The capital structure of the firm includes 10% debenture of ₹ 20 lakh and equity share capital of ₹ 40 lakh. Assume a tax rate of 50%.

Required:

Calculate operating, financing and combined leverage.

8. Why do firms follow a policy of stable dividends or gradually increasing dividends?
9. The management of Vibgyor Fabrics subscribes to the Net Operating Income approach and believes that its cost of debt and overall cost of capital will remain at 9 percent and 12 percent respectively. If the debt-equity ratio is 0.8, what is the cost of equity?

Part C

(2 Q x 20 M = 40 Marks)

10.

Manjunath Ltd. has the following capital structure:

Common Shares (20 million shares, ₹ 10 par)

Preferred Shares, 12 % (500,000 shares, ₹ 100 par)

Retained Earnings ₹ 350 million

Debentures, 14% (1,200,000 debentures, ₹ 100 par)

Term loans, 13 % ₹ 80 million

The next expected dividend per share is ₹ 20, and is expected to grow at 12% per year. The market price of common shares is ₹ 50. Preferred shares, redeemable after 10 years, currently sell for ₹ 85. Debentures, redeemable after 5 years, sell at ₹ 90 per debenture. The tax rate is 30%.

Required:

Calculate the Weighted Average Cost of Capital for the company.

11.

A company is planning to make an investment of ₹ 10 Lakhs in a project. It is pondering three options to finance the project.

Option 1. Issue Equity of ₹ 10 Lakhs or issue ₹ 5 Lakhs Equity and ₹ 5 Lakhs 10% Debentures.

Option 2. Issue Equity of ₹ 8 Lakhs and ₹ 2 Lakhs 10% Debentures or issue Equity of ₹ 7 Lakhs and ₹ 3 Lakhs 12% Preferred Shares.

3. Issue Equity ₹ 10 lakhs or issue Equity ₹ 5 Lakhs and ₹ 2.5 Lakhs 10% Debentures and ₹ 2.5 Lakhs 12% Preferred Shares.

Required:

Calculate indifference level of EBIT in each case, assuming a tax rate of 35%, and a ₹ 100 issue price of common and preferred shares.



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Weightage: 20 %

Max Marks: 60

Max Time: 2 HRS.

1 March Thursday 2018

MID TERM EXAMINATION

SET A

Even Semester 2017-18

Course: **FIN 201 Corporate Finance**

II Sem. MBA

Instruction:

- (i) *Read the question properly and answer accordingly.*
- (ii) *Question paper consists of 3 parts.*

Part A

1. In what ways is the wealth maximizing objective superior to the profit maximization objective? Explain. (6 Marks)
2. What are the basic financial decisions? How do they involve risk-return trade-off? (6 Marks)
3. What is an ordinary share? How does it differ from a preference share and debenture? Explain its most important features. (8 Marks)

Part B

4. You can save Rs.5,000 a year for 3 years, and Rs.7,000 a year for 7 years thereafter. What will these savings cumulate to at the end of 10 years, if the rate of interest is 8 percent? (7 Marks)
5. What is the present value of an income stream which provides Rs.30,000 at the end of year one, Rs.50,000 at the end of year three, and Rs.100,000 during each of the years 4 through 10, if the discount rate is 9 percent ? (7 Marks)
6. Suppose you deposit Rs.200,000 with an investment company which pays 12 percent interest with compounding done once in every two months, how much will this deposit grow to in 10 years? (6 Marks)

Part C

(2 Q x 10 M = 20 Marks)

7. Your company is considering two projects, *M* and *N*. Each of which requires an initial outlay of Rs.240 million. The expected cash inflows from these projects are:

<i>Year</i>	<i>Project M</i>	<i>Project N</i>
1	85	100
2	120	110
3	180	120
4	100	90

- What is the payback period for each of the projects?
- What is the discounted payback period for each of the projects if the cost of capital is 15 percent?

8. Matrix Associates is evaluating a project whose expected cash flows are as follows:

<i>Year</i>	<i>Cash flow (Rs. in million)</i>
0	(23)
1	6
2	8
3	9
4	7

The cost of capital for Matrix Associates is 14 percent.

- What is the NPV of the project?
- What is the IRR of the project?