



**PRESIDENCY UNIVERSITY, BENGALURU**  
**SCHOOL OF MANAGEMENT**

Max Marks: 100

Max Time: 180 Mins

Weightage: 50 %

**Set A**

**COMPREHENSIVE EXAMINATION**

II Semester 2016-2017

Course: **MBA A102 Corporate Finance**

29 May 2017

**Instructions:**

- i. Write legibly
- ii. Scientific and nonprogrammable calculators are permitted

**Part A**

(10 x 2 M= 20Marks)

1. Distinguish between capital markets and money markets.
2. What is the function of a secondary market? Give examples for secondary market.
3. What is permanent working capital?
4. What is IPO? In which type of financial market does IPO take place?
5. Name two capital budgeting techniques which takes into consideration the time value of money.
6. What are the two types of share capital? Briefly explain.
7. Name the working capital management policies followed by companies.
8. Differentiate between gross working capital and net working capital.
9. Define WACC and name the different sources of capital for firms.
10. What are the key characteristics of bonds?

**Part B**

(8Q x 5M= 40 Marks)

11. Briefly explain the flow of funds in an economy with the help of a diagram.
12. A firm has the following capital structure and after tax costs for the different sources of funds :

Sources of funds	Amount ( lakhs)	After tax cost of capital (%)
Debentures	23	5
Preference shares	12	10
Equity shares	28	12
Retained Earnings	23	11
Total	86	

Compute the weighted average cost of capital

13. A mining company's iron ore reserves are being depleted and its costs of recovering a declining quantity of iron ore are rising each year. As a sequel to it, the company's earnings and dividends are declining at a rate of 15% p.a. If the previous year's dividend was ₹20 and the required rate of return is 15%, what would be the current price of the equity share of the company?
14. X Ltd issues 60000, 9% debentures of Re.10 each at a premium of 10%. The costs of floatation is 2%. The rate of tax applicable to the company is 60%. Compute the cost of debt capital.
15. Suppose that Reliance Industries had promised to pay ₹.7000 at the end of the seventh year. If the market interest rate is 7.75%, how much are you prepared to pay for the 7year bond now?
16. A company issues 2000, 8% preference shares of ₹100 each at a discount of 5%. Costs of raising capital is ₹5000. Compute the cost of preference capital.  
Assume the firm pays tax at 50%. Compute the after-tax cost of preference capital sold at ₹100 with a 9% dividend and a redemption price of ₹110, if the company redeems it in five years.
17. Brigade Motors is offering free credit on a car priced at ₹12000000. You pay Rs.360000 now and then pay the balance amount after two years. Magnum Honda does not offer you free credit but will give you Rs.230000 off on the price. If the market interest rate is 8.75% which company is offering a better deal.
18. Suppose you can borrow money at 8% per year compounded quarterly or 7% per year compounded monthly, which is a better deal?

### Part C

(1Q x 10 M= 10 Marks)

19. You are depositing an amount of ₹110,975 at an interest rate of 6.75% per annum. Calculate the amount that you will receive after three years if compounded  
i) Annually ii) Half yearly iii) Quarterly iv) Monthly

20. (1Q x 15 marks = 15 marks)

- a. A bond that matures in 8 years has a par value of Rs.1000 and an annual coupon rate of 7% ; its market interest rate is 9%. What is its price?
- b. A bond that matures in 12 years has a par value of Rs.1000 and an annual coupon of 10%; the market interest rate is 8%. What is its price?
- c. A bond that matures in 7 years has a par value of Rs.1000 and an annual coupon of 10%; the market interest rate is 10%. What is its price?

Comment on why the above bonds trade at par, premium or discount.

21. The expected cash flows of a project are as follows (1Q x 15 marks = 15 marks)

Year	Cash Flow
0	-100000
1	20000
2	30000
3	40000
4	50000
5	30000

The weighted average cost of capital is 12%. Calculate the following:

- a) Payback period b) Discounted payback period c) MIRR



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Max Marks: 50

Max Time: 120 Mins

Weightage: 25 %

**Set A**

**TEST 2**

II Semester 2016-2017

Course: MBA A102 Corporate Finance

10 April 2017

**Instructions:**

- i. Write legibly
- ii. Scientific and nonprogrammable calculators are permitted

**Part A**

**(6 x 1 M= 6 marks)**

- 1 What is capital budgeting?
- 2 What is the function of a capital market?
- 3 What is profitability index?
- 4 Name two capital expenditures
- 5 Name two capital budgeting techniques which takes into consideration the time value of money.
6. How much amount should you invest now to get an amount of ₹2500 after 2 years if the interest rate is 7.5%?

**Part B**

**(8Q x 4 M= 32 Marks)**

7. Can financial markets help in flow of funds to the economy?
8. Make an overview of the steps in capital budgeting process.
9. Using the information given below, compute the Payback period and discounted payback period.

Depreciation has been calculated under straight line method and the cost of capital is 20%.

Initial Outlay	Rs.80000
Estimated Life	5 years
Profit after tax:	Rs.
End of year 1	6000
End of year 2	14000
End of year 3	24000
End of year 4	16000
End of year 5	Nil

10. How long will it take for Rs.1000 to grow to Rs.3000 at the interest rate specified.  
(a) 6% (b) 8% (c) 12%
11. Suppose that Reliance Industries had promised to pay Rs.5000 at the end of the seventh year. If the market interest rate is 7.75%, how much are you prepared to pay for the 7year bond of face value Rs.5000.
12. How much can be paid for a machine which brings in an annual cash inflow of Rs.40000 for 5 years? Assume that the discount rate is 14%.
13. Suppose you can borrow money at 8.5% per year compounded semi-annually or 7% per year compounded monthly, which is better deal?
14. What is the internal rate of return of an investment which involves a current outlay of Rs.150000, cost of capital is 9% and results in an annual cash inflow of Rs.40000 for 5 years?

**Part C**

**(1Q x 12 M= 12 Marks)**

15. Your company is considering two projects, M and N, each of which requires an initial outlay of Rs.50 million. The expected cash inflow from these projects are:

Year	Project M ₹ millions	Project N ₹ millions
1	11	38
2	19	22
3	32	18
4	37	10

- What is the payback period for M & N
- What is the discounted payback period for M & N if cost of capital is 12%?
- If the two projects are independent and the cost of capital is 12%, which project should the firm invest in?
- If the two projects are mutually exclusive and the cost of capital is 15%, which project should the firm invest in?
- If the cost of capital is 15%, what is MIRR for each project?



PRESIDENCY UNIVERSITY, BENGALURU  
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Max Marks: 50

Max Time: 55 Mins

Weightage: 25 %

Set A

TEST 1

II Semester 2016-2017

Course: MBA A102 Corporate Finance

20 February 2017

**Instructions**

- i. Scientific and nonprogrammable calculators are permitted

**Part A**

(5 x 1 M= 5 Marks)

Fit each of the following terms into the most appropriate space:

financing, real, stock, investment, executive airplanes, financial, capital budgeting ,brand names.

- 1 Companies usually buy \_\_\_ assets.
- 2 These include both tangible assets such as \_\_\_ and intangible assets such as \_\_\_.
- 3 In order to pay for these assets, they sell \_\_\_ assets such as \_\_\_.
- 4 The decision regarding which assets to buy is usually termed the \_\_\_ or \_\_\_ decision.
- 5 The decision regarding how to raise the money is usually termed the \_\_\_ decision

**Part B**

(5 Q x 5 M= 25 Marks)

6. What is a financial market? State the difference between primary market and secondary market with example.
7. Briefly explain the flow of funds in financial markets with the help of a diagram.
8. What are the advantages and disadvantages of the most common forms of business organization? Which forms are most suitable to different types of businesses?
9. You deposit ₹6000 in your bank account. If the bank pays 6.75% simple interest, how much will you accumulate in your account after 5 years? What if the bank pays compound interest? How much of your earnings will be interest on interest?
10. You will require ₹50,975 in 5 years. If you earn 7.25% interest on your funds, how much will you need to invest today in order to reach your savings goal?

**Part C**

(2 Q x 10 M= 20 Marks)

11. Explain the role of financial manager
12. You are depositing an amount of ₹10475 at an interest rate of 6.75% per annum. Calculate the amount that you will receive after two years if compounded
  - Annually
  - Half yearly
  - Quarterly
  - Monthly