AJEENKYA
D Y PATIL UNIVERSITY

End Term Examinations (December 2019)

School: School of Management   Program: MBA Banking & Financial Services

Course: Corporate Finance   Course Code: MGT510

Semester: I   Max Marks: 100   Duration (mins) : 150

Instruction:

Figures to write indicates full marks.

All questions carry equal marks

Solve any 5 out of 6 questions.

Q1. What are different sources of capital available for a company Explain its advantages and disadvantages?

b) A person deposits Rs 100,000, Rs 200,000, Rs.300,000 and Rs. 400,000 in his deposit account at the end of 1st year, 2nd year, 3rd year and 4th year respectively. Determine the account balance at the end of 4th year where interest rate is 12%.

Q2. Determine the value of firm where equity capitalization is 20%. Corporate tax is

50%

You have to decide which of the two firms have optimal capital structure under NI approach.

	Leverage A	Non leveraged B

EBIT	600000	600000
Interest 15%	240000	

b) Explain the concept of Risk and Return. What are different types of Risk?

Q3. Short notes on (any2)

1) Factors Determining capital structure.
2) Dividend Policy
3) NPV
4) IPO process

Q4 Using the below mentioned information, advise the company whether to purchase the machinery or not on the basis of Net present value and PB period.

a) Purchase of machine : 10,00,000
b) Installation expenses Rs 50,000
c) Workers training expenses incurred Rs. 50,000
d) Subsidy by government : 50% of purchase price now
e) Useful life of machinery : 5 years
f) Book salvage value 10% of purchase price
g) Actual salvage value realised at the end of useful life Rs. 80,000
h) Method of depreciation : straight line
i) Tax Rate: 30%
j) Cost of Capital 10%
k) Sales units: 1^{st} year 1,00,000units, 2^{nd} yr. 2,00,000 3^{rd} 3,00,000 units 4^{th} year 4,00,000 units and 5^{th} year 500000.
l) Working capital requirement Rs. 250000
m) Initial selling price per unit is Rs. 10 will continue for first 2 years and Rs 9 thereafter. Variable cost is 40% of initial selling price. Annual fixed cost other than depreciation is Rs. 200000 which will increase to Rs 300000 after 3^{rd} year.

Q5. Mobious Ltd has the following capital structure as per its balance sheet as on 31^{st} March 2016.

Equity share capital (fully paid shares of Rs. 100 each)	4 Lakh
10% preference share capital (Fully paid up of rs. 100 each)	1 lakhs
11% Debentures (Fully paid up Rs. 100 each)	5 lakhs
Total	10 Lakhs

Additional information:

a) Currently quoted prices in Stock market:
   Equity shares @ 102, preference share @Rs. 100
b) The company will pay equity dividend of Rs. 10 per share at the end of current year which is expected to grow @ 10% pa forever.
c) The corporate tax rate is 50%

Required: a) Calculate Cost of Equity & Weighted Average cost of Capital.

b) calculate the revised Weighted Average cost of Capital if the following changes are made
(i) Increase in dividend rate from 10% to 12%
(ii) Reduction of growth rate from 10% to 8%
(iii) fall in market price of equity shares from Rs. 102 to Rs. 92.

Q6. a) What do you mean by capital structure Explain the factors determining the capital structure.

b)

Sales (40,000 units)	Rs. 48.00
Less: Trade discount	Rs 2.40
Net sales	Rs. 45.60

Cost of sales
- Direct material Rs 14.40
- Direct Labour Rs 12.60
- Factory Overheads Rs. 6.30
- Administration Expenses Rs 3.60
- Selling and distribution Rs. 4.50

The following changes are anticipated during the next year:
a) Sales units will increase by 25%
b) Material price will increase by 15%
c) Direct wages will increase by 12%
d) Overheads – factory overheads will be limited to 6.5 lakh; admin & selling & distribution are estimated to increase by 8% and 14% respectively.
e) Trade discount no change in rate.
f) Profit target for the year is Rs. 6 Lakh.

Calculate selling price and present the budgeted operating results for the next year

*****ALL THE BEST*****