

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2022-24)
END TERM EXAMINATION (TERM -II)

Subject Name: Corporate Finance

Time: **02.30 hrs**

Sub. Code: PG 27

Max Marks: **40**

Note:

All questions are compulsory. Section A carries 5 marks: 5 questions of 1 marks each, Section B carries 21 marks having 3 questions (with internal choice question in each) of 7 marks each and Section C carries 14 marks one Case Study having 2 questions of 7 marks each.

Kindly write the all the course outcomes as per your TLEP in the box given below:

CO1- Understand the concept of Corporate Finance and Apply mathematics of Finance for estimation of Risk and Return for wealth maximization.
CO2- Analyze the relationship between Investment and Financing Decisions with reference to Valuation of Business/to achieve the goal
CO3- Analyze the strategies for Dividend Decisions and Operational Financial Management with focus on Working Capital Management of a Business
CO4- Developing critical reports and tools for finance executives/managers in addition to financial statements

SECTION - A

Attempt all questions. All questions are compulsory.

1×5 = 5 Marks

Questions	CO	Bloom's Level
Q. 1: (A). An Investor deposits a sum of 1,00,000 in a bank account on which interest is credited @10% p.a. How much amount can be withdrawn annually for a period of 15 years? Q. 1: (B). Discuss Tax Shield with the help of an illustration. Q. 1: (C). Define WACC. Q. 1: (D). What are bonus shares? Why they are issued by firms? Q. 1: (E). Define perpetuity.	CO1	L2

SECTION – B

All questions are compulsory (Each question have an internal choice. Attempt any one (either A or B) from the internal choice)

7 x 3 = 21 Marks

Questions	CO	Bloom's Level																												
Q. 2: (A). A firm whose cost of capital is 15% is considering two mutually exclusive projects X and Y, the detail of which are:	CO2	L3																												
<table border="1"> <thead> <tr> <th></th> <th>Year</th> <th>Project X</th> <th>Project Y</th> </tr> </thead> <tbody> <tr> <td>Cost</td> <td>0</td> <td>1,00,000</td> <td>1,00,000</td> </tr> <tr> <td>Cash Inflows</td> <td>1</td> <td>10,000</td> <td>50,000</td> </tr> <tr> <td></td> <td>2</td> <td>20,000</td> <td>20,000</td> </tr> <tr> <td></td> <td>3</td> <td>30,000</td> <td>20,000</td> </tr> <tr> <td></td> <td>4</td> <td>50,000</td> <td>10,000</td> </tr> <tr> <td></td> <td>5</td> <td>60,000</td> <td>10,000</td> </tr> </tbody> </table>		Year	Project X	Project Y	Cost	0	1,00,000	1,00,000	Cash Inflows	1	10,000	50,000		2	20,000	20,000		3	30,000	20,000		4	50,000	10,000		5	60,000	10,000		
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	5	60,000	10,000																											
Which project will you select, using the Net Present Value Method.																														

Or

Q. 2: (B). “Value of firm is a function of leverage added to a firm upto a judicial level”. Justify the statement in light of capital structure theories.

CO2

L2

Q. 3: (A). Ganesha Limited is setting up a project with a capital outlay of Rs. 60,00,000. It has two alternatives in financing the project cost.

CO2

L3

Alternative-I: 100% equity finance by issuing equity shares of Rs.10 each
Alternative-II: Debt-equity ratio 2:1 (issuing equity shares of Rs.10 each)

The rate of interest payable on the debts is 18% p.a. The corporate tax rate is 40%. Calculate the indifference point between the two alternative methods of financing.

Or

Q. 3: (B). ABC Ltd. has the following capital structure, which is considered to be optimum as on 31st March, 2022.

	(₹)
14% Debentures	30,000
11% Preference shares	10,000
Equity Shares (10,000 shares)	1,60,000
	2,00,000

CO2

L3

The company share has a market price of Rs.23.60. Next year dividend per share is 50% of year 2021 EPS. Following is the uniform trend of EPS for the preceding 10 years which is expected to continue in future:

Year	EPS (₹)	Year	EPS (₹)
2012	1.00	2017	1.61
2013	1.10	2018	1.77
2014	1.21	2019	1.95
2015	1.33	2020	2.15
2016	1.46	2021	2.36

The company issued new debentures carrying 16% rate of interest and the current market price of debenture is Rs. 96. Preference shares of Rs. 9.20 (with annual dividend of Rs.1.1 per share) were also issued. The company is in 50% tax bracket.

Calculate WACC.

Q. 4: (A).

CO3

L4

i) Differentiate Gross and Net Working Capital (1 mark)

ii) Define Float (1 mark)

iii) State three determinants of working Capital (1 mark)

iv) State various methods of working capital estimation. Which technique will you recommend and why? (4 marks)

CO3

L4

Or

Q. 4: (B). Paying Dividend is a “Passive Decision” by the firm. Discuss the statement in light of Dividend Theories.

SECTION – C

Read the case and answer the questions

7×02 = 14 Marks

Questions

CO

Bloom's

						Level																		
Q. 5: Case Study:						CO4																		
<p>The Max Company is considering the four different investment opportunities. The selected information about each proposal is given below:</p> <table border="1"> <thead> <tr> <th></th> <th>Project 1</th> <th>Project 2</th> <th>Project 3</th> <th>Project 4</th> <th>Project 5</th> </tr> </thead> <tbody> <tr> <td>Cash Outlay</td> <td>Rs. 950000</td> <td>700000</td> <td>650000</td> <td>450000</td> <td>650000</td> </tr> <tr> <td>PV of Cash Inflows</td> <td>1115000</td> <td>800000</td> <td>675000</td> <td>435000</td> <td>720000</td> </tr> </tbody> </table> <p>The company is unable to accept all available projects because the funds available for investment are limited up to Rs. 2000000</p> <p>Questions:</p> <p>Q5(A): Compute the profitability index (present value index) for all the projects.</p> <p>Q5 (B): Rank the investment projects considering the concept of capital rationing and give justification to project preference.</p>			Project 1	Project 2	Project 3	Project 4	Project 5	Cash Outlay	Rs. 950000	700000	650000	450000	650000	PV of Cash Inflows	1115000	800000	675000	435000	720000					L5 and L6
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Kindly fill the total marks allocated to each CO's in the table below:

COs	Marks Allocated
CO1	5 Marks
CO2	14 Marks
CO3	7 Marks
CO4	14 Marks

(Please ensure the conformity of the CO wise marks allocation as per your TLEP.)

Blooms Taxonomy Levels given below for your ready reference:

L1= Remembering

L2= Understanding

L3= Apply

L4= Analyze

L5= Evaluate

L6= Create