MB-109

Sl.No. : **Total No. of Pages : 3**

Second Semester M.B.A. Degree Examination, May/June - 2023
(Non CBCS) (SLM Scheme)
MANAGEMENT
Corporate Finance

Time : 3 Hours **Max. Marks : 80**

SECTION - A

1) **Answer any five sub-questions. Each sub question carries three marks :** **[5 × 3 = 15]**

a) Define cost of capital.

b) Differentiate between NPV and IRR.

c) What is primary market?

d) What is dividend decision?

e) Define Profitability Index.

f) What is present value?

g) A firm does not pay any dividend for the first 5 years and thereafter it will pay a dividend of ₹ 8 at the growth rate of 10%. The required rate of return is 10%. Find the value of share.

SECTION - B

Answer any four questions. Each question carries five marks : **[4 × 5 = 20]**

2) Discuss the importance of capital budgeting decision.

3) Mr. Prateesh will receive ₹ 7,00,000 after 1 year, ₹ 6,00,000 in year 2, ₹ 8,00,000 in year 3 and ₹ 10,00,000 in year 4. What would be his present value at 8% rate of return?

4) A Bond of ₹ 1,000 that has a coupon rate of 10% per anmum is payable half yearly. Find the value of the bond if it is redeemed in 7 years and the investors required rate of return in 12%.

5) Discuss the need for working capital.

6) What are the internal factors affecting dividend decisions?

7) A computer costs ₹ 56,000 the following are the cash inflows, calculate NPV at 12%.

Year	CFAT
1	14,000
2	16,000
3	18,000
4	20,000
5	25,000

SECTION - C

Answer any three questions. Each question carries ten marks : [3 × 10 = 30]

8) A firm purchases a machine for ₹ 10,00,000 it has on operating profit of each year of ₹ 3,00,000 for 4 years and depreciation is at 20% of written down value and tax 40%. After 4 years the asset will be sold at ₹ 1,50,000. Find out the cash flows for different years.

9) Write note on :

   a) Reinvestment rate

   b) Discounted cash flows method

   c) Incremental cash flows

   d) Traditional capital budgeting techniques

10) ABC company is planning to evaluate proposals to take a replacement decision. There are two machines, which are mutually exclusive. If P is purchase, Q will be automatically excluded. The life of both the machines is 5 years. Calculate

   a) Pay back period

   b) Net present value

   c) Profitability Index and then provide the decision

Year	Machine P(₹)	Machine Q(₹)
1	-	10,00,000
2	5,00,000	14,00,000
3	20,00,000	16,00,000
4	14,00,000	17,00,000
5	6,00,000	8,00,000

The cost of capital is 16% and machine P can be purchased for ₹ 25,00,000. Machine Q is priced at ₹ 40,00,000.

11) Differentiate between business risk and financing risk of a firm. How are they measured by leverage?

12) What is the meaning of cost of capital? What is its significance in financial decision-making?

SECTION - D

13. **Case Study (Compulsory) :** **[1 × 15 = 15]**

VS international Ltd, has a capital structure (all equity) comprising of ₹ 5,00,000 each share of ₹ 10. The firm wants to raise an additional ₹ 2,50,000 for expansion project the firm was the following four alternative financial plans I, II, III and IV. If the firm is able to earn on operating profit at ₹ 80,000 after additional investment and 50% tax rate. Calculate EPS for all four alternatives and select the preferable financial plan. Financial plans

Questions :

a) Raise the entire amount in the form of equity capital.

b) Raise 50 percent as equity capital and 50 percent as 10 percent debt capital.

c) Raise the entire amount as 12 percent debentures.

d) Raise 50 percent equity capital and 50 percent preference share capital at 10 percent.

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