MBHC-2.2

Sl. No.

II Semester M.B.A. Degree Examination, May/June - 2025

MANAGEMENT

Corporate Finance

(CBCS Scheme)

Time : 3 Hours **Maximum Marks : 80**

SECTION - A

Answer any Five questions. Each question carries 5 marks. **(5×5=25)**

1. List out the functions of corporate financial manager.
2. What is time value of money? Briefly explain different types of annuity with example.
3. State the significance of cost of capital.
4. What are the long term sources of finance? Give various sources from which the long term funds can be raised.
5. "Wealth maximization is superior than profit maximization". Comment.
6. Distinguish between operating leverage and financial leverage.
7. Briefly explain different forms of dividends.

SECTION - B

Answer any Four questions. Each question carries 10 marks. **(4×10=40)**

8. What is optimal capital structure? Explain determinants of capital structure.
9. Critically evaluate Modigliani and Miller theory of capital structure.
10. Explain the relevance of agency theory.
11. You are given the following information in respect of ABC Ltd.

Earnings	Rs.1,00,000
Equity capital	5,000 shares of Rs. 10 each
Cost of capital	10%
Expected rates of	return (i) 9%,(ii)10% and (iii) 12%

Assuming that dividend pay-out ratio are 0%, 50% and 100% respectively, determine the effects of the different dividend policies on the share price of ABC Ltd. for the above mentioned three alternative levels of rate of returns using Gordon' model.

[P.T.O.

12. From the following capital structure of a company, calculate the overall cost of capital using (i) Book value weights and (ii) Market Value Weights.

Source	Book Value	Market Value
Equity share capital (Rs. 20/share)	Rs.1,80,000	Rs.3,60,000
Retained Earnings	Rs. 60,000	Nil
Preference Share Capital	Rs.40,000	Rs. 40,000
Debentures	Rs.1,20,000	Rs. 1,20,000

After cost of different source of finance is as follows: Equity share capital 16%, retained earnings 16%, preference share capital 10% and debentures 8%.

13. XYZ Ltd. Company is considering the purchase of Machine. Two machines A and B, each costing Rs. 2,00,000 , are available. Earnings after taxes are expected to be as under.

Year	Machine - A	Machine - B	Discount factor at 10%
1	Rs.60,000	Rs.20,000	0.9091
2	Rs. 80,000	Rs.60,000	0.8264
3.	Rs.1,00,000	Rs.80,000	0.7513
4.	Rs. 60,000	Rs.1,20,000	0.6830
5.	Rs.40,000	Rs.80,000	0.6209

Evaluate the two alternatives according to NPV method (a discount of 10% is to be used). Which machine should be selected ? Why?

SECTION - C

Case (Compulsory). **(1×15=15)**

14. MCA company considering two mutually exclusive projects both require an initial investment of Rs.1,00,000 each and have a life of five years. The cost of capital of the company is 10% and tax rate is 50%. The depreciation is charge on straight line methods. The estimated net cash inflows (before depreciation and tax) of the two projects are as follows:

Year	Project - A	Project - B
1.	Rs. 40,000	Rs. 60,000
2.	Rs. 44,000	Rs. 54,000
3.	Rs. 56,000	Rs. 44,000
4.	Rs. 50,000	Rs. 50,000
5.	Rs. 60,000	Rs. 40,000

Which project should be accepted as per NPV and IRR methods?
