

END TERM EXAMINATION**FOURTH SEMESTER [B.COM (HONS.)] JUNE 2024****Paper Code: B.COM-204****Subjects: Corporate Finance****Time: 3 Hours****Maximum Marks: 75****Note: Attempt any five questions. All questions carry equal marks.**

- Q1 "Financial management is nothing but managerial decision making on asset mix." Discuss the role and functions of modern finance manager in case of a large diversified firm. Discuss the organization of finance function in such large and diversified firm.
- Q2 (a) Financial institutions in India play an important role in providing finance to industrial units in India. Discuss long term and short term sources of raising finance.
- (b) Critically explain the Capital Asset Pricing Model.
- Q3 (a) Determine the market price of equity shares of the company from the following information as per Walter's Model:

Earnings of the company	Rs. 5,00,000
Dividend Paid	Rs. 3,00,000
Number of shares outstanding	1,00,000
Price earnings ratio	8
Rate of return on investment	15%

Are you satisfied with the current dividend policy of the firm? If not, what should be the optimal dividend payout ratio?

- (b) "Dividend is irrelevant while valuing the companies." Critically examine the statement in light of the dividend decision.
- Q4 Companies X and Y are in the same risk class, and are identical in every respect except that Company X uses debt, while Company Y does not. The leveraged firm has Rs.9,00,000 debentures, carrying 10% rate of return. Both the firms earn 20% operating profit on their total assets of Rs. 15,00,000. Assume perfect capital markets, rational investors and so on, a tax rate of 35% and capitalization rate of 15% for an all-equity company. Compute:
- (a) Value of firms X and Y using Net Income (NI) Approach.
- (b) Value of firms X and Y using Net Operating Income (NOI) Approach.
- (c) Which of these two firms has an optimum capital using NOI approach and why?

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Q5 (a) Kamani Ltd. is planning to raise Rs.100 crores by the issue of 13% debentures of Rs.100 each at 10% discount. The underwriting expenses are expected to be 4%. Find out the cost of debentures in each of the following case:

- I) If debentures are irredeemable.
- II) If debentures are redeemable at the end of 10th year at 15% premium. Use short-cut method. Assume tax rate is 35%.

(b) Enumerate the factors which affect the cash needs of the firm. What are the objectives of cash management.

Q6 Prepare the Income Statement and calculate EPS with the help of following information:

Contribution to Sales ratio	50%
Operating leverage	1.45
Financial Leverage	1.34
Corporate tax rate	40%
Number of equity shares	10,000
Fixed Interest charges	Rs. 5,000

Q7 Risk is an important component of every business, comment. Distinguish between business risk and financial risk of a firm. How are they measured?

Q8 The following information has been extracted from the records of the company:

Product cost sheet	Rs.
Raw materials	45
Direct labour	20
Overheads	40
Total costs	105
Profit	15
Selling price	120

- I) Raw materials are in stock on an average for two months.
- II) Materials are in process on an average for one month.
- III) Degree of completion is 50% for all elements of cost.
- IV) Time lag in payment of wages and overheads is one month.
- V) Time lag in receipt of payment from debtors is two months.
- VI) Credit allowed by suppliers is one month.
- VII) 20% of output is sold for cash.
- VIII) Finished material in stock for one month.
- IX) The company wants to keep minimum cash of Rs.1,00,000. The company is expected to produce 1,44,000 units in the next year. Prepare a statement of working capital requirement of the company.

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