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| Semester: Nov 23 to April 24 | | |
| Maximum Marks: 50 Examination: ESE Examination Date: 27-03-24 Duration: 3 hrs | | |
| Programme code: 08 Programme: MBA- Executive | Class: FY | Semester/Trimester: II |
| College: K. J. Somaiya Institute of Management | Name of the department/Section/Center: Finance and Law | |
| Course Code: 217P08C203 | Name of the Course: Corporate Finance & Valuation | |
| Instructions: Solve any five questions All questions carry same marks. | | |

| Question No. | | Max. Marks | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------------------|---|------------------|----------------|----------------|-------------------------|--------|--------|-------|--------|--------|--------------|-------|-------|-----------|-------|-------|-------------------|-------|-------|-----------------|-------|-------|------------------|-------|-------|------------------------|---|---|----|
| 1 | <p>Vikor Engineering Co Ltd is considering the purchase of a machine. There are two possible machines which will produce the additional output. The details of these machines are given below-</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Machine A (Rs)</th> <th style="text-align: center;">Machine B (Rs)</th> </tr> </thead> <tbody> <tr> <td>Capital Cost of machine</td> <td style="text-align: center;">30,000</td> <td style="text-align: center;">30,000</td> </tr> <tr> <td>Sales</td> <td style="text-align: center;">50,000</td> <td style="text-align: center;">40,000</td> </tr> <tr> <td>Cost- Labour</td> <td style="text-align: center;">5,000</td> <td style="text-align: center;">3,000</td> </tr> <tr> <td> Materials</td> <td style="text-align: center;">4,000</td> <td style="text-align: center;">5,000</td> </tr> <tr> <td> Factory Overheads</td> <td style="text-align: center;">6,000</td> <td style="text-align: center;">5,000</td> </tr> <tr> <td> Admin Overheads</td> <td style="text-align: center;">2,000</td> <td style="text-align: center;">1,000</td> </tr> <tr> <td> Selling expenses</td> <td style="text-align: center;">1,000</td> <td style="text-align: center;">1,000</td> </tr> <tr> <td>Expected life in years</td> <td style="text-align: center;">2</td> <td style="text-align: center;">3</td> </tr> </tbody> </table> <p>Additional information-</p> <ul style="list-style-type: none"> ● Cost shows relate to annual expenditure resulting from each machine ● Sales are expected to continue at the rate shown for the full life of each machine ● Tax to paid at 50% on earnings ● The appropriate rate of interest for discounting factor to taken at 10% ● The discounting factor at 10% discount for the three years is as under- <p style="margin-left: 40px;">First year- 0.9091 Second year- 0.8264 Third year- 0.7513</p> <p>Show the most profitable investment under (a) Payback period method (b) Net present Value (c) Profitability Index</p> | | Machine A (Rs) | Machine B (Rs) | Capital Cost of machine | 30,000 | 30,000 | Sales | 50,000 | 40,000 | Cost- Labour | 5,000 | 3,000 | Materials | 4,000 | 5,000 | Factory Overheads | 6,000 | 5,000 | Admin Overheads | 2,000 | 1,000 | Selling expenses | 1,000 | 1,000 | Expected life in years | 2 | 3 | 10 |
| | Machine A (Rs) | Machine B (Rs) | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Capital Cost of machine | 30,000 | 30,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sales | 50,000 | 40,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost- Labour | 5,000 | 3,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Materials | 4,000 | 5,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Factory Overheads | 6,000 | 5,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Admin Overheads | 2,000 | 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Selling expenses | 1,000 | 1,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Expected life in years | 2 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | <p>A newly formed company has applied to the Commercial bank for the first time for financing its working capital requirements. The following information is available about the projection for the current year-</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Elements of Cost</th> <th style="text-align: center;">Per unit (Rs)</th> </tr> </thead> <tbody> <tr> <td>Raw materials</td> <td style="text-align: center;">40</td> </tr> </tbody> </table> | Elements of Cost | Per unit (Rs) | Raw materials | 40 | 10 | | | | | | | | | | | | | | | | | | | | | | | |
| Elements of Cost | Per unit (Rs) | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Raw materials | 40 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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|---|---|---|--------------|--------------------------------------|-----------|---------------|-----------|--------------|-------------------|-------|-----|--|
| | <table border="1"> <tr> <td>Direct labour</td> <td>15</td> </tr> <tr> <td>Overhead</td> <td>30</td> </tr> <tr> <td>Total cost</td> <td>85</td> </tr> <tr> <td>Profit</td> <td>15</td> </tr> <tr> <td>sales</td> <td>100</td> </tr> </table> <p>Other information-</p> <p>i) Raw material in stock: average 4 weeks consumption, work-in-progress (completion stage 50%) , on an average 2 weeks. Finished goods in stock: on an average four weeks.</p> <p>ii) Credit allowed by suppliers is one month. Credit allowed to debtors is two months.</p> <p>iii) Average time lag in payment of wages is 2 weeks and 4 weeks in overhead expenses.</p> <p>iv) Cash in hand and bank is desired to be maintained at Rs 50000</p> <p>v) All sales are on credit basis only.</p> <p>Prepare statement showing estimate of working capital needed to finance an activity level of 96000 units of production. Assume that production is carried on evenly throughout the year, and wages and overhead accrue similarly. For the calculation purpose 4 weeks may be taken as equivalent to a month and 52 weeks in a year.</p> | Direct labour | 15 | Overhead | 30 | Total cost | 85 | Profit | 15 | sales | 100 | |
| Direct labour | 15 | | | | | | | | | | | |
| Overhead | 30 | | | | | | | | | | | |
| Total cost | 85 | | | | | | | | | | | |
| Profit | 15 | | | | | | | | | | | |
| sales | 100 | | | | | | | | | | | |
| 3 | <p>Write short note on any two-</p> <p>(a) Important Decisions of Finance</p> <p>(b) Discounted cash flow and Terminal value.</p> <p>(c) Treasury and Controller Function of finance</p> | 10 | | | | | | | | | | |
| 4 | <p>The following is the capital structure of Simons Company Ltd as on 31 march</p> <p>Current year-</p> <table border="1"> <tr> <td>Equity shares – 10000 shares of Rs 100 each</td> <td>Rs 10,00,000</td> </tr> <tr> <td>10% Preference shares of Rs 100 each</td> <td>Rs 400000</td> </tr> <tr> <td>12% Debenture</td> <td>Rs 600000</td> </tr> <tr> <td>Total</td> <td>Rs 2000000</td> </tr> </table> <p>The market price of the company’s share is Rs 110 and it is expected that a dividend of Rs 10 per share would be declared for the current year. The dividend growth rate is 6%. Preference shares redeemable after 10 years at par and currently selling at Rs 100 per share. If the company is in the 50% tax bracket, compute the weighted average cost of capital.</p> | Equity shares – 10000 shares of Rs 100 each | Rs 10,00,000 | 10% Preference shares of Rs 100 each | Rs 400000 | 12% Debenture | Rs 600000 | Total | Rs 2000000 | 10 | | |
| Equity shares – 10000 shares of Rs 100 each | Rs 10,00,000 | | | | | | | | | | | |
| 10% Preference shares of Rs 100 each | Rs 400000 | | | | | | | | | | | |
| 12% Debenture | Rs 600000 | | | | | | | | | | | |
| Total | Rs 2000000 | | | | | | | | | | | |
| 5 | <p>What are the various long term and short-term sources of finance available to an organization. Explain in brief with example.</p> | 10 | | | | | | | | | | |
| 6 | <p>ABC Ltd earned INR 4,00,000 after taxes in 2004 and paid out 50 per cent of its earnings as cash dividends. The market price of the equity is INR 7 per share. The equity capitalization account is as follows:</p> | 10 | | | | | | | | | | |

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|---|---|---|--------------|----------------------------|-------------|----------------------|--------------|---------------|--------------|--------------|--------------------|----|
| | <table border="1" data-bbox="445 136 1307 416"> <tr> <td>Common equity (INR 1 par value 1,00,000 shares)</td> <td>INR 1,00,000</td> </tr> <tr> <td>Additional paid-in capital</td> <td>INR 50,000</td> </tr> <tr> <td>Retained earnings</td> <td>INR 2,50,000</td> </tr> <tr> <td>Total equity</td> <td>INR 4,00,000</td> </tr> </table> <ul style="list-style-type: none"> ● If the company declared a stock dividend of 4 per cent, what would be the new structure of the shareholder's equity account? ● Assume that the company pays no stock dividend. What would happen to the earnings per share for 2004? What would be the dividends per share? ● If 5 per cent stock dividends are declared, what would be the EPS and the DPS? ● What would be the price of the stock after 5 per cent stock dividends? | Common equity (INR 1 par value 1,00,000 shares) | INR 1,00,000 | Additional paid-in capital | INR 50,000 | Retained earnings | INR 2,50,000 | Total equity | INR 4,00,000 | | | |
| Common equity (INR 1 par value 1,00,000 shares) | INR 1,00,000 | | | | | | | | | | | |
| Additional paid-in capital | INR 50,000 | | | | | | | | | | | |
| Retained earnings | INR 2,50,000 | | | | | | | | | | | |
| Total equity | INR 4,00,000 | | | | | | | | | | | |
| 7 | <p>A company's capital structure consists of the following:</p> <table border="1" data-bbox="376 719 1355 1039"> <tr> <td>Equity shares of Rs 100 each</td> <td>Rs 20 Lakhs</td> </tr> <tr> <td>Retained earnings</td> <td>Rs 10 Lakhs</td> </tr> <tr> <td>9% preference shares</td> <td>Rs 12 Lakhs</td> </tr> <tr> <td>7% debentures</td> <td>Rs 8 Lakhs</td> </tr> <tr> <td>Total</td> <td>Rs 50 Lakhs</td> </tr> </table> <p>The company earns 12% on its total capital means the EBIT for the company is 600000. The income tax rate is 50%. The company requires a sum of Rs 25 Lakhs to finance its expansion program for which the following alternative are available to it:</p> <ol style="list-style-type: none"> a) Issue of 20,000 equity shares at a premium of Rs 25 per share b) Issue of 10% preference shares c) Issue of 8% debentures <p>It is estimated that the P/E ratios in the cases of equity, preference and debentures financing would be 21.4, 17 and 15.7 respectively. Which of the 3 financing alternatives would you recommend and why?</p> | Equity shares of Rs 100 each | Rs 20 Lakhs | Retained earnings | Rs 10 Lakhs | 9% preference shares | Rs 12 Lakhs | 7% debentures | Rs 8 Lakhs | Total | Rs 50 Lakhs | 10 |
| Equity shares of Rs 100 each | Rs 20 Lakhs | | | | | | | | | | | |
| Retained earnings | Rs 10 Lakhs | | | | | | | | | | | |
| 9% preference shares | Rs 12 Lakhs | | | | | | | | | | | |
| 7% debentures | Rs 8 Lakhs | | | | | | | | | | | |
| Total | Rs 50 Lakhs | | | | | | | | | | | |