

Registration Number:

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**ST. JOSEPH’S UNIVERSITY, BENGALURU -27**

**B.COM – IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May / June 2024)**

**BC-4222: Corporate Finance**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 60**

**This paper contains TWO printed pages and FOUR parts**

**PART-A**

Answer any **FIVE** questions. Each question carries 3 marks.  **(5 x 3 = 15)**

1. State three advantages of issuing bonus shares.
2. What is Financial Management? State the decisions of financial management.
3. What is dividend? State three types of dividends a company pays.
4. Why is capital budgeting considered essential for businesses?
5. What are the primary motives that drive businesses to hold cash?
6. The following data is available for ABC Ltd. Rs.

Sales :7,50,000

Variable Cost :4,20,000

Fixed Cost: 60,000

Debt :4,50,000(Interest on Debt @ 9%)

Equity Capital: 5,50,000

Calculate Operating, financial and combined leverage.

**PART- B**

Answer any **TWO** questions. Each question carries 5 marks. **(2 X 5 = 10)**

1. A company is requiring a machine which needs an investment of rupees 3,20,000. The profits before tax and depreciation are estimated as follows:

|  |  |
| --- | --- |
| **Years** | **Profit before Depreciation & Tax** |
| 1 | 1,60,000 |
| 2 | 60,000 |
| 3 | 1,08,000 |
| 4 | 1,12,000 |
| 5 | 96,0000 |

Calculate ARR if tax rate is 55% and deprecation is on straight line method.

1. "Numbers tell a story, and a finance manager is the storyteller who ensures a happy ending for the organization."- Elucidate the functions of a finance manager in a business.
2. Use NPV and Profitability Index method to compare and analyze which Proposal is better to accept; Assume discounting rate is 10%.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Project | Cash outflow | Cash inflow | | |
| X | 20000 | 30000 | 20000 | 10000 |
| Y | 20000 | 10000 | 20000 | 30000 |

**PART- C**

Answer any **TWO** questions. Each question carries 10 marks. **(2 X 10 = 20)**

1. Elaborate on the various factors that play a significant role in shaping the working capital needs of a company?
2. A machine involves an initial investment of Rs 2,00,000 and following cash flows for 5 years.

|  |  |
| --- | --- |
| **Cash flow** | **Amount** |
| Year 1 | 40,000 |
| Year 2 | 60,000 |
| Year 3 | 80,000 |
| Year 4 | 1,00,000 |
| Year 5 | 1,20,000 |

Compute the internal rate of return.

(Trial rates 20% & 29%)

1. The Capital Structure of Taj Ltd is as follows:

|  |  |
| --- | --- |
| **Particulars** | **Amount** |
| Equity Share Capital (Rs100 each) | 4000000 |
| Retained Earnings | 1000000 |
| 9% Preference Shares | 2500000 |
| 7% Debentures | 2500000 |

The management is planning to raise another 2500000 to finance its expansion program and has identified three possible financial plans:

1. Issue 20000 equity shares of Rs100 each at a premium of Rs 25 per share
2. Issue 10% Preference shares.
3. Issue 9% Debentures

The company is expected to earn 12% on its total Capital structure. The tax rate applicable is 50%. Price Earnings ratio for the financial plans are 20,17,16 respectively.

On the basis of EPS, suggest the best financial plan and also find the Market price of the share in each plan.

**PART- D**

Answer the following. The question carries 15 marks. **(1 X 15 = 15)**

1. As a financial analyst of a large electronics company, you are required to determine the weighted.
2. average cost of capital of the company using (I) book value weights and (ii) market value weights. The
3. following information is available for your perusal:
5. The company’s
6. present book value capital
8. structure is:
10. Rs.
12. Preference shares (Rs. 100 per share)
14. 2,00,000
16. Equity shares (Rs. 10 per share) 10,00,000
18. Debentures (Rs. 100 per debenture)
20. 8,00,000

23. All these securities are traded in the capital market. Recent prices are:
24. Debentures @ Rs. 110 per debenture
25. Preference shares @ Rs. 120 per share
26. Equity shares @ Rs. 22 per share

13.As a financial analyst of a large electronics company, you are required to determine the weighted average cost of capital of the company using (i) book value weights and (ii) market value weights. The following information is available for your perusal:

The company’s present book value capital structure is:

|  |  |
| --- | --- |
| Preference shares (Rs. 100 per share) | 2,00,000 |
| Equity shares (Rs. 10 per share) | 10,00,000 |
| Debentures (Rs. 100 per debenture) | 8,00,000 |

1. Rs. 100 per debenture redeemable at par; 10 year-maturity, 13% coupon rate, 4% flotation costs.
2. Rs. 100 per preference share redeemable at par; 10 year-maturity, 14% dividend rate, 5% flotation costs.
3. Equity shares: The issue price before floatation cost is 22 and Rs. 2 per share is the flotation cost. In addition, the dividend expected on the equity share at the end of the year is Rs. 2 and the dividends are expected to grow by 7% p.a.

The market prices of the securities are as follows.(Assume the costs of the securities remain the same as above)

* Debentures @ Rs. 110 per debenture
* Preference shares @ Rs. 120 per share
* Equity shares @ Rs. 22 per share

Anticipated external financing opportunities are:

i) Rs. 100 per debenture redeemable at par; 10 year-maturity, 13% coupon rate, 4% flotation costs, sale

price Rs. 100.

ii) Rs. 100 preference share redeemable at par; 10 year-maturity, 14% dividend rate, 5% flotation costs,

sale price Rs. 100.

iii) Equity shares: Rs. 2 per share flotation costs, sale price @ Rs. 22.

In addition, the dividend expected on the equity share at the end of the year is Rs. 2 and the earnings are

expected to increase by 7% p.a. The firm has a policy of paying all its earnings in the form of dividends.

The corporate tax rate is 50%.

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