SVKM's NMIMS
NMIMS – GLOBAL ACCESS SCHOOL FOR CONTINUING EDUCATION

Programme: PGDBM/PGDFM

Examination: June 2017
Subject: Corporate Finance

Date: 16.06.2017

Semester: IV
Course : New
Marks : 70
Time: 3.00 p.m. to 6.00 p.m.

Instructions:

1. Answer to each new question to be started on a fresh page.
2. Figures in bracket indicate full marks.

Q.1) Attempt any 2 out of 4 **(Marks: 2X5=10)**

a) Distinguish between compounding & discounting.

b) Discuss temporary working capital & permanent working capital.

c) Write a short note on capital rationing.

d) What are the objectives of cash management?

Q.2) Write short notes on (2 out of 5) **(Marks: 2X5=10)**

a) What are the various costs associated with Holding Inventories?

b) Write a brief note on arbitrage process.

c) What are the assumptions of the CAPM Model?

d) What are the various forms of dividend?

e) What are the features of Equity Stock?

Q.3) Attempt any 3 out of 5 **(Marks: 3X10=30)**

a) A company has the following capital structure:

Equity Shares	-	Rs.10,00,000
9% Preference Shares	-	Rs.15,00,000
12% Debentures	-	Rs.15,00,000

Tax rate is 40%. What rate of dividend the company should pay so that the after tax weighted average cost of capital does not increase beyond 15%?

b) Determine the sales of the firm given the following data:

Current Ratio	-	1.4
Quick Ratio	-	1.2
Current Liabilities	-	Rs.1,600 Crs
Inventory Turnover Ratio	-	8 times.

c) A Company wishes to determine the optimal capital structure. From the following data, determine the optimal capital structure.

Situation	Debt	Equity	Kd after tax (%)	Ke(%)
1	400000	100000	9	10
2	250000	250000	6	11
3	100000	400000	5	14

d) An investor has two options to choose from: (a) Rs 6,000 after 1 year; (b) Rs 9,000 after 4 years. Assuming a discount rate of 20%, which is a better alternative?

e) XYZ Corp Ltd. is considering relaxing its present credit policy and is in the process of evaluating two policies. Currently the firm has annual credit sales of Rs.50 Lakhs and debtors turnover ratio of 4 times a year. The current level of loss due to bad debts is Rs.150,000. The firm is required to give a return of 25% on investments in new accounts receivable. The company's variable costs are 70% of selling price. Given the following option, which is a better option?

	Present Policy	Option I	Option II
Annual Credit Sales	50,00,000	60,00,000	67,50,000
Debtors Turnover Ratio	4 times	3 times	2.4 times
Bad debt losses	150,000	300,000	450,000

Q.4) Attempt both the questions **(Marks: 2X10=20)**

a) Prepare a working capital estimate to finance an activity level of 104,000 units a year (52 weeks) based on the following data:

Raw Materials – Rs.80 per unit

Direct Labour – Rs.30 per unit

Overheads – Rs.60 per unit

Selling Price – Rs.200 per unit, Raw materials & Finished Goods remain in stock for a month, work in process takes 1/2 month. Debtors are allowed 2 months for payment whereas creditors allow us 1 month. Lag in payment of overheads is a month & wages is 1 ½ weeks. 1/4th of the output is sold for cash & minimum cash balance expected is Rs.25,000. Debtors are valued at Selling Price.

b) Swastik Ltd, manufacturers of special purpose machine tools, have two divisions which are periodically assisted by visiting teams of consultants. The management is worried about the steady increase of expenses in this regard over the years. An analysis of the last year's expenses reveals the following:

Consultant's remuneration	250000
Travel & Conveyance	150000
Accommodation expense	600000
Boarding charges	200000
Special Allowance	50000
TOTAL	1250000

The management estimates accommodation expenses to increase by Rs 2,00,000 annually. As part of cost reduction drive, Swastik Ltd is proposing to construct a consultancy centre to take care of the accommodation requirements of the consultants. This centre will additionally save the company Rs 50,000 in boarding charges and Rs 2,00,000 in the cost of executive training programme hitherto conducted outside the company's premises, every year.

The following details are available regarding the construction and maintenance of the new centre:

(a) Land: at a cost of Rs 8,00,000 already owned by the company, will be used.

(b) Construction: Rs 15,00,000 including special furnishing.

(c) Cost of annual maintenance: Rs 1,50,000.

(d) Construction cost will be written off (at a uniform rate) over 5 years, being the useful life.

Assuming that the write-off of construction cost as aforesaid will be accepted for tax purposes, that the rate of tax will be 35% and that the desired rate of return is 15%, you are required to analyse the feasibility of the proposal and make recommendations. Use present value up to two digits.

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