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

Programme: PGDBM/PGDFM

Examination: June 2016
Subject: Corporate Finance

Semester: IV
Course : New
Marks : 70

Date: 17.06.2016

Time: 3.00 p.m. to 6.00 p.m.

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**Instructions:**

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

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

a) Briefly discuss the discounting techniques of project appraisal.

b) Discuss in brief 'Operating Cycle'.

c) What are the objectives of Receivable management?

d) Explain 'Operating Leverage'.

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

a) Write a brief note on capital rationing.

b) What are the features of optimal capital structure?

c) Discuss the advantages & limitations of Payback period criteria.

d) Discuss the 'Net Income Approach' of capital structure theory.

e) Discuss various classes of debentures.

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

a) Retained earnings are free – Discuss.

b) Discuss the ABC and FSN technique of Inventory management.

c) A manufacture has under consideration the proposal of production of high quality plastic sheets. The equipment is expected to cost Rs.100,000 and would last for 5 years. Depreciation is charged at 20% p.a on WDV basis. The expected salvage value is Rs.10,000. The sheets can be sold for Rs.4 each. Regardless of level of production the manufacturer will incur a cash cost of Rs.25,000 each year if the production is undertaken. The Overhead cost allocated to this new line would be Rs.5,000. The variable costs are estimated to be Rs.2 per sheet. The estimated sales are 75,000 sheets per year with applicable tax rate of 35%. Additional working capital of Rs.50,000 would be needed and the expected return is 20%. Based on NPV should the new equipment be purchased? **(Note - No depreciation to be charged in the year of scarp/sale)**

d) The following are the details pertaining to two firms P & Q:

| Particulars | P | Q |
|---|---|---|
| Sales | 500000 | 1000000 |
| Variable Cost | 200000 | 300000 |
| Fixed Cost | 150000 | 400000 |
| Interest | 50000 | 100000 |

Based on the above calculate operating, financial & combined leverage & comment on the relative risk position of the firms.

e) What are the factors influencing the Size of Investment in Receivables?

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

a) Marks Ltd. is launching a new product for manufacture of unique components. At full capacity of 24,000 units, the cost per unit is as follows:

| | | |
|---|---|---|
| Material | - | Rs.80 |
| Labor & Variable expenses | - | Rs.40 |
| Fixed expenses | - | Rs.20 |
| Depreciation | - | Rs.10 |

The selling price per unit is Rs.200 and the selling expenses will be Rs.10 (80% variable). The production will be 15,000 units & Sales 14,000 units for the year.

Additional Information:

1. Material stock is for 3 months, WIP is Nil
2. Debtors are 1 month average cost of sales and Creditors are for 2 months of average purchases
3. Expenses are for 1 month average for all expenses
4. Minimum cash balance is Rs.20,000
5. Finished goods stock is taken at average cost of production

Prepare a Working capital estimate

b) Prepare a monthly forecast of cash for Raja Ltd., for the quarter ended 31st December, 2009 from the following information.

a. Opening balance as on 1st October, 2009 Rs. 52,000

b. The sales for August, September & October were Rs. 100,000 each, November Rs. 135,000 and December Rs. 140,000. 30% Sales were for cash & balance on credit. 50% of credit sale is collected in the next month & balance a month thereafter.

c. Dividend on investments is being declared on 20th December 2009 amounting to Rs. 1200.

d. Machinery sale in month of December 2009 Rs. 15,000

e. Materials worth Rs. 40,000 each is being purchased in August and September, 50% of which is payable on 1st October 2009 and proposed purchases for Quarter October-December evenly spread out is Rs. 150,000.Vendors offer 5% discount for cash payments. It is decided to maintain cash balance of Rs. 10,000 each month and balance to be utilized for payments to vendors.

f. Wages are expected to be Rs. 12,000 per month payable a month in arrears.

g. Manufacturing expenses payable in month incurred Rs. 15,000 per month.

h. General selling expenses are expected to be Rs. 5,000 per month.

i. Machine costing Rs. 55,000 is proposed to be purchased for cash in December.

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