GL BAJAJ
Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2019-21)
END TERM EXAMINATION (TERM - III)

Subject Name: Corporate Finance	Time: **02.30 hrs.**
Sub. Code: PG-20	Max Marks: **60**

Note:
1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A & C. Section A carries 10 questions of 2 marks each, Section B carries 5 questions of 04 marks each and Section C carries 1 Case Study of 20 marks.

SECTION - A

Attempt all multiple-choice questions. All questions are compulsory. **02×10 = 20 Marks**

Q. 1 (A): Lotus Ltd. expects a net operating income of Rs. 2,00,000. It has Rs. 6,00,000, 7% debentures. The overall capitalization rate is 10%. What will be the cost of equity according to Net Operating Profit Approach?
a) 14%
b) 9%
c) 11.28%
d) 26.33%

Ans: (c)

Q. 1 (B): Norway Ltd. is expecting an annual EBIT of Rs. 2,00,000. The company has Rs. 5,00,000 in 10% debentures. The cost of equity is 16%. What will be the total value of firm according to the Net Income Approach?
a) Rs. 14,37,500
b) Rs. 9,37,500
c) Rs. 15,00,000
d) Rs. 20,00,000

Ans: (a)

Q. 1 (C): ……………… dividend promises to pay the shareholders at a future date.
a) Cash
b) Property
c) Bonus
d) Scrip

Ans: (d)

Q. 1 (D): According to ………………. Model, the dividend decision is irrelevant.
a. Walter's Model
b. Gorden's Model
c. MM Model
d. All of the above

Ans: (c)

Q. 1 (E): Stakeholder cannot be:

a) Shareholders
b) Customers
c) Management
d) None of the above

Ans: (d)

Q. 1 (F): Mr. Atul deposits Rs. 5,000 at the end of every year for 5 years and the deposit earns a compound interest @ 8% p.a. How much money he will have at the end of 5 years.

a) Rs. 29,335 (approx.)
b) Rs. 7940 (approx.)
c) Rs. 7345 (approx.)
d) Rs. 49,335 (approx.)

Ans: (a)

Q. 1 (G): The appropriate objective of an enterprise is:

a) Maximization of sales
b) Maximization of owner's wealth
c) Maximization of profits
d) None of the above

Ans: (b)

Q. 1 (H): Criterion for IRR (Internal Rate of Return)?

(a) Accept IRR > Cost of capital
(b) Accept IRR < Cost of capital
(c) Accept IRR = Cost of capital
(d) none of the above

Ans: (a)

Q. 1 (I): If you have to judge a project from its NPV, you will select the one with the______________?

(a) Highest NPV
(b) Lowest NPV
(c) NPV cannot judge the project
(d) Information is not enough

Ans: (a)

Q. 1 (J): Suppose that Rs. 1,500 are placed in the savings account of a bank at 9% interest rate. How much shall it grow at the end of 4.5 years? The formula to calculate it will be:

a) $PV*(1+r)^{n}$
b) $PV* CVF_{(r, t)}$
c) $PV*CVF_{(t, r)}$
d) All of the above

Ans: (d)

SECTION– B

Attempt any five out of six questions (Practical Approach) **04×05 = 20 Marks**

Q. 2: As a management consultant, you are required to state the considerations involved in estimating the amount of the required working capital. Suggest ways and means to meet the need of working capital.

Q. 3: In Walter's approach, the dividend policy of a firm depends on availability of investment opportunity and the relationship between the firm's internal rate of return and its cost of capital. Discuss the shortcomings of this view.

Q. 4: Agency conflicts are the direct outcome of the multiplicity of stakeholders in a firm and their resolution lies in the convergence of the interests of varied stakeholders. Analyze.

Q. 5: "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximizing shareholders' wealth." Comment.

Q. 6 and Q. 7: A company plans to issue 1,000 new shares of Rs. 100 each at par. The floatation costs are expected to be 5% of the share price. The company pays a dividend of Rs. 10 per share initially and the growth in dividends in expected to be 5%. The average tax rate of shareholders is 40% and it is expected that 2% is the brokerage cost that shareholders will have to pay while investing their dividends in alternative securities.

a) Calculate the cost of new issue of equity shares.
b) What is the cost of retained earnings?

SECTION - C

Read the case and answer the questions: **10×02 = 20 Marks**

Q. 8: Case Study:

Q 8(A): According to the theory of irrelevance of capital structure, Net operating Income and MM's propositions conclude that it is the earning power of the asset that determines the value of the firm and not how the acquisition of asset has been financed. The presence of taxes does not change the earning capacity of the assets of the firm. Is there any difference between the two approaches? Explain.

Q8(B): Oxford Ltd. has an investment opportunity costing 40,000 with the following expected net cash flows after taxes and depreciation. The expected life of the project is 10 years without any salvage value.

Year	**Net Cash Flow Rs.**
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the discount rate, determine:

a) Profitability Index
b) IRR with the help of 10% and 15% discount factor.

Question Number	CLO
1	CLO 4
2	CLO 5
3	CLO 5
4	CLO 1
5	CLO 2
6	CLO 3
7	CLO 3
8	CLO 6