Roll No……

GL BAJAJ Institute of Management & Research Greater Noida
FIND YOUR SPARK

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

POST GRADUATE DIPLOMA IN MANAGEMENT (2024-25)
END TERM EXAMINATION (TERM -II)

Subject Name: **Corporate Finance** Time: **02.00 hrs**
Sub. Code: **PG26** Max Marks: **40**

Note: All questions are compulsory. Section A carries 5 marks: 5 questions of 1 marks each, Section B carries 21 marks having 3 questions (with internal choice question in each) of 7 marks each and Section C carries 14 marks one Case Study having 2 questions of 7 marks each.

SECTION - A

Attempt all questions. All questions are compulsory. **2×6 = 12 Marks**

Questions	CO	Bloom's Level
Q. 1: (A). Compute the present value of perpetuity of Rs.100 if the discount rate is 10 percent. **Q. 1: (B).** Differentiate the simple annuity and annuity due, stating the formula for each. **Q. 1: (C).** XYZ has borrowed Rs. 500000/- to be repaid through five equal annual payments. The rate of interest is 16 percent. Compute the amount of each payment. **Q. 1: (D).** The earnings of the company were Rs. 30 per share in year 1. Over ten years, it grew to Rs. 40.2. Calculate the compound annual growth rate per year. **Q. 1: (E).** "Agency cost is worth spending", comment on the statement. **Q. 1: (F).** Comment on the emerging role of finance manager in India.	CO1 and CO2	L1, L2 And L3

SECTION – B

All questions are compulsory (Each question has an internal choice. Attempt anyone (either A or B) from the internal choice) **6 x 3 = 18 Marks**

Questions	CO	Bloom's Level
Q. 2: (A). Evaluate the policies for financing current assets on risk-return trade-off. **Or** **Q. 2: (B).** **i)** Firm X has current assets of 500 lakh and current liabilities of 250 lakh. Firm Y has current assets of 700 lakh and current liabilities of 450 lakh. For both firms, calculate: (a) gross working capital (b) net working capital (c) net working capital ratio. (3 marks) **ii)** differentiate deposit float and payment float (1 mark) **iii)** A customer has been ordering an average of 50,000 units during the last year. The production cost is 150 per unit. It costs 10,500 to set up for the order and the inventory carrying cost is 20% of the production cost. Determine the most economic production quantity for the firm. (2 marks)	CO5	L4

Q. 3: (A). A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000 The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses straight-line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal
the following:

Year	Cash Flow Before Tax
1	Rs. 10,000
2	Rs. 10,692
3	Rs. 12,769
4	Rs. 13,462
5	Rs. 20,385

Calculate the payback period for the project.

CO4 | L4

Or

Q. 3: (B). Do the profitability Index and NPV criterion of evaluating investment proposals lead to the same acceptance rejection and ranking decisions? Support your response with a suitable illustration.

CO3 | L4

Q. 4: (A). For the given information analyze the decisions taken by the finance manager

(a) A company's debentures of the face value of 100 bears an 8 percent coupon rate. Debentures of this type currently yield 10 percent. What is the market price of debentures of the company?

(b) What would happen to the market price of the debentures if interest rises to (i) 16 percent, and (ii) drops to 12 percent?

(c) What would be the market price of the debentures in situation (a) if it is assumed that debentures originally having a 15-year maturity period and the maturity period is 4 years away from now? Would you pay ₹90 to purchase debentures specified in situation (c)? Explain.

Or

Q. 4: (B).

A company has on its books the following amounts and specific costs of each type of capital.

Type of Capital	Book Value	Market Value	Specific Cost (%)
Debt	Rs. 4,00,000	Rs. 3,80,000	5
Preference	Rs. 1,00,000	Rs. 1,10,000	8
Equity	Rs. 6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
Total	13,00,000	16,90,000	

Determine the weighted average cost of capital using (a) Book value weights and, (b) Market value weights.
How are they different? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights?

SECTION - C

Read the case and answer the questions **5×02 = 10 Marks**

Questions	CO	Bloom's Level
Q. 5: Case Study:	CO4	

Determining the optimal combination of projects becomes increasingly complex as the number of profitable projects grows. While the profitability index is effective in simple, single-period capital constraint scenarios, it falls short when faced with multi-period constraints, additional restrictions, mutually exclusive projects, or interdependent projects. Consider a firm operating under a budget constraint of ₹10 lahks (1 million), and is in the process of deploying the available capital in below-mentioned prospect projects:

Project	Outlay (Rs.)	NPV (Rs.)	PI	Rank
A	5,00,000	1,10,000	1.22	1
B	1,50,000	(7,500)	0.95	6
C	3,50,000	70,000	1.20	2
D	4,50,000	81,000	1.18	4
E	2,00,000	38,000	1.17	3
F	4,00,000	20,000	1.05	5

Based on the above data, answer the following questions:

Questions:

Q. 5: (A).

i) What is the budget constraint faced by the firm in this scenario?

ii) Based on the Profitability Index (PI), which projects does the firm initially select, and what is their total cost and combined NPV?

iii) Why is the next most promising project, E, not immediately feasible for selection?

Q. 5: (B).

i) How does the firm identify a more optimal combination of projects within the budget constraint?

ii)How does the selection of smaller, lower-ranked projects (E and D) over a larger, higher-ranked project (A) benefit the firm?

(Entire Sec C to be assigned one CO. Both questions corresponding to the same CO)

Kindly fill the total marks allocated to each CO's in the table below:

COs	**Question No.**	**Marks Allocated**
CO1	**Q1, D,E and F**	**6**
CO2	**Q1,A,B and C**	**6**
CO3	**Q4 (A & B)**	**6**
CO4	Q3 (A& B) and Q5	**16**
CO5	**Q2 (A & B)**	**6**
CO6	-	-

(Please ensure the conformity of the CO wise marks allocation as per your TLEP.)

Blooms Taxonomy Levels given below for your ready reference:

L1= Remembering
L2= Understanding
L3= Apply
L4= Analyze
L5= Evaluate
L6= Create