JHARKHAND
Rai University
RANCHI
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End Semester/Reappear (Semester II) Examination July 2022

Programme: ABM — **Full Marks: 70**
Subject: Corporate Finance — **Time: 3 Hrs.**
Subject Code: 11.557
Enrollment No: _______________

Section I

1. **Short Answer type questions. Answer any four.** **4 x 5 = 20**
   a. What are the basic financial decisions? How do they involve risk return trade off?
   b. Define Cash Flows. How is it different from profit?
   c. Distinguish between operating Leverage & Financial Leverage.
   d. Discuss the determinants of Capital Structure.
   e. Discuss the Gordan Model of Relevance of Dividend.
   f. What is firm's operating cycle? How is it calculated?

Section II

Long Answer type questions. Answer any three. **3 x 10 = 30**

2. The key argument of Walter's Model is that a firm should have an optimum dividend policy. Comment & explain using suitable illustration.
3. List and explain the various sources of long term finances for the companies in India.
4. What are the similarities and dissimilarities between NPV and IRR? Which of the two methods will you prefer when they give different ranking of the investment proposals? Why?
5. Under the recurring deposit scheme of SBI, a fixed sum is deposited every month on or before the due date opted for 12 to 120 months according to the need and convenience and needs of the investor. The rate of interest applied is 9% p.a. for periods from 12 to 24 months and 10% p.a. for periods from 24 to 120 months and is compounded at quarterly intervals. Calculate the maturity value of a monthly installment for Rs. 5 for 12 months.
6. a. 2, 00,000 debentures of Rs 250 each are being issued at 5% discount. The Coupon rate is 15%. Floatation cost are likely to be 5 % of the face value. The redemption will be after 8 years at a premium of 5%. The tax rate is 40%. Determine the true cost of debt.
   b. Explain the relevance of time value of money in financial decision making

Section III

Application based questions. Answer any one. **1 x 20 = 20**

7. When can there arise a conflict between shareholder's and manager's goals? How does wealth maximization goal take care of this objective?

8. XYZ Ltd is considering two additional mutually exclusive projects. The after tax cash flows associated with these projects are as follows:

Year	**Project A**	**Project B**
0	1,00,000	1,00,000
1	32,000	0
2	32,000	0
3	32,000	0
4	32,000	0
5	32,000	2,00,000

The required rate of return on these projects is 11%.

i. What is each project's net present value?
ii. What is each project's internal rate of return?
iii. What has caused the ranking conflict?
iv. Which project should be accepted & why?

9. From the following information you are required to estimate the Net Working Capital:

	Cost per unit (Rs)
Raw materials	400
Direct Labor	150
Overheads	300
Total Cost	850

Additional Information:

Selling Price	Rs 1000 per unit
Output	52,000 units per annum
Raw material in stock	Average 4 weeks
Work in process (assume 50% completion stage with full material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed to debtors	8 weeks
Credit allowed by debtors	4 weeks
Cash at bank	

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