

**Programme: MBA**  
**Course: Corporate Finance**  
**Course Code:11.557**  
**Enrolment no. \_\_\_\_\_**

**Full Marks: 70**  
**Time: 3 Hrs.**

Q.No.	Questions	CO	Bloom Taxonomy Category	Marks																							
<b>Section I</b>																											
1	<b>Short Answer type questions.</b>																										
a	“Financial Management is concerned with the solutions of three major decisions a firm must make.” Explain the statement highlighting the interrelationship amongst these decisions.	CO1	Analyze	4 x 5 = 20																							
	or																										
	Explain the relevance of Time Value of Money in Financial Decision Making.	CO1	Understand																								
	Why is coefficient of Variation a better measure than Standard Deviation? Explain with the help of an Example.	CO2	Analyze																								
	or																										
b	You are given the risk and return profile of two assets: A & B under the economic outlooks: Pessimistic, Most Likely and Optimistic <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <thead> <tr> <th rowspan="2">Economic Outlook</th> <th colspan="2">Asset A</th> <th colspan="2">Asset B</th> </tr> <tr> <th>Probability</th> <th>Return %</th> <th>Probability</th> <th>Return %</th> </tr> </thead> <tbody> <tr> <td>Pessimistic</td> <td>0.25</td> <td>26</td> <td>0.25</td> <td>18</td> </tr> <tr> <td>Most Likely</td> <td>0.60</td> <td>30</td> <td>0.60</td> <td>30</td> </tr> <tr> <td>Optimistic</td> <td>0.15</td> <td>34</td> <td>0.15</td> <td>42</td> </tr> </tbody> </table> Which asset you will prefer & why, given that the cost of both the assets is same?	Economic Outlook	Asset A		Asset B		Probability	Return %	Probability	Return %	Pessimistic	0.25	26	0.25	18	Most Likely	0.60	30	0.60	30	Optimistic	0.15	34	0.15	42	CO2	Evaluate
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c	“Debentures occupy a very important place in the financial plan”. Discuss the statement and point out the limitations of debenture financing.	CO3	Understand																								
	or																										
	Discuss the internal sources of Financing available to a company.	CO3	Understand																								
d	“Payback period is more a method of liquidity rather than a profitability.” Examine.	CO4	Analyze																								
	or																										
	Define Cash Flows. How is it different from profit?	CO4	Understand																								
<b>Section II</b>																											
	<b>Long Answer type questions.</b>																										
	Examine critically the different approaches for computing the cost of equity. Discuss the merits and demerits of each.	CO3	Evaluate																								
	or																										
2	a. Bose systems Ltd. Has planned to issue 30,000, 14% preference shares of Rs 100 each that are redeemable after 10 years. Floatation costs are expected to be 2% of sale proceeds of the issue. Calculate the cost of Preference Capital. b. The current market price of a share is Rs 100. The firms’ current earnings are Rs 21 Crore and its shares outstanding are Rs 2 Crore. It is contemplating to raise additional funds of Rs 6 Crore by issuing equity at a premium of 10%. The Flotation cost is Rs 5 per share. Compute the cost of Equity Capital.	CO3	Evaluate																								
3	What is working capital? Is there any significance in the concept of gross working capital and net working capital? Discuss in detail.	CO4	Evaluate																								
	or																										

	How do NPV and IRR compare in terms of evaluating investment opportunities? If an investment proposal receives conflicting rankings from these methods—such as an NPV of ₹500,000 suggesting acceptance, while an IRR of 12% falls below the required rate—how should an investor decide which method to prioritize? Explain your reasoning.	CO4	Evaluate	3 x 10 = 30
4	Under SBI's recurring deposit scheme, an investor deposits a fixed amount each month for a duration ranging from 12 to 120 months. The applicable interest rate is 9% p.a. for periods between 12 and 24 months and 10% p.a. for periods between 24 and 120 months, compounded quarterly. Determine the maturity value of a monthly installment of ₹5 for a period of 12 months.	CO1	Analyze	
	or			
	A conflict may arise between shareholders and managers when decision-making priorities differ. For example, suppose a company's shareholder expects a 15% annual return on investment, while the management team focuses on expanding operations, projecting only a 10% growth in profits. How does the wealth maximization goal address this misalignment and ensure both parties' interests are balanced?	CO1	Evaluate	

### Section III

<b>Application based questions</b>												
5	<p>The Capital Structure of M/s Futura Ltd. As on 31-3-2009 is as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Book Value Structure</th> <th style="text-align: center;">₹</th> </tr> </thead> <tbody> <tr> <td>Equity shares Capital:20,000 shares of ₹100 each</td> <td style="text-align: right;">20,00,000</td> </tr> <tr> <td>12% Preference Shares ₹100 each</td> <td style="text-align: right;">8,00,000</td> </tr> <tr> <td>8% Debentures</td> <td style="text-align: right;">12,00,000</td> </tr> </tbody> </table>	Book Value Structure	₹	Equity shares Capital:20,000 shares of ₹100 each	20,00,000	12% Preference Shares ₹100 each	8,00,000	8% Debentures	12,00,000	CO5	Evaluate	1 x 20 = 20
	Book Value Structure	₹										
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<p>The market value of the company's share is ₹ 125 and that a dividend of ₹ 10 per share would be declared after one year. The dividend growth rate is 8%,            (i) If company is in 30% tax bracket, calculate the weighted average cost of capital.            (ii) The Company needs to borrow a fund of ₹ 10 Lakh for its expansion plan, the rate of interest is 12%, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from ₹ 10 to ₹ 12 per share. However, the market price of equity share is expected to decline from ₹125 to ₹120 per share.</p>												
or												
	<p>i. Calculate the Operating Leverage, Financial Leverage &amp; Combined Leverage for a Firm using the following information: - Sales 60,000 Units at Rs. 10 per unit; Variable cost at Rs. 4 per unit; The Fixed Cost is Rs. 2,00,000; Also 10% Debentures of Rs. 3,00,000 were raised by the firm.            ii. Define optimal capital structure. Compare and contrast net operating income approach and MM approach.</p>	CO5	Analyze									

#### COURSE OUTCOME

On the completion of the Course, the students will be able to:

**CO 1: Understand the applicability of the Fundamental Financial Concepts in Corporate Decision Making.**

**CO 2: Demonstrate the assessment of risk & Return.**

**CO 3: Evaluate the various sources of raising finance with their pros & cons in different situations.**

**CO 4: Evaluate the investment in long term and short term assets.**

**CO 5: Analyze the Complexities associated with the sources of raising funds in Capital Structure.**