

School of Business

MBA
ETE - Jun 2023

Time : 3 Hours

Marks : 50

Sem II - MBDS5013 - Corporate Finance

*Your answer should be specific to the question asked
Draw neat labeled diagrams wherever necessary*

1. What is work in progress (WIP)? How it is important in inventory management? K2 CO1 (2)
2. Explain the assumptions of Baumol's cash management model. K2 CO5 (2)
3. You have taken out a loan of \$20,000 to be repaid in 5 equal annual installments, with an interest rate of 8%. Calculate the annual payment required to fully repay the loan. K2 CO2 (2)
4. What is EBIT-EPS analysis? Explain with the help of an example. K1 CO4 (2)
5. Discuss the chief functions of financial management. K2 CO3 (2)
6. Company XYZ has fixed costs of \$100,000 and variable costs per unit of \$5. The selling price per unit is \$10. The company sold 20,000 units of its product. The company has a total debt of \$500,000 and equity of \$300,000. Calculate the combined leverage and interpret the result. K4 CO3 (5)
7. Compute Working Capital requirements from the following details: K4 CO4 (6)
,CO5

Budgeted sales: 20,000 units per annum

| | |
|----------------------------|-------|
| Raw Material Cost per unit | Rs.8 |
| Direct Labour per unit | Rs. 8 |
| Overheads per unit | Rs. 2 |
| | |
| Total cost per unit | Rs.18 |
| Profit per unit | Rs.2 |
| Selling price per unit | Rs.20 |

Additional Information:

1. Raw material will be carried in stock for 4 weeks and finished goods for 2 weeks.
2. Factory processing will take, on an average 3 weeks.
3. Suppliers provide 6 weeks credit; and
4. Debtors are allowed 8 weeks credit.

Assume labour and overhead expenses to accrue evenly throughout the production cycle.

8. Explain the concept of capital structure irrelevance proposed by Modigliani and Miller. What are the underlying assumptions of their theory, and what are its implications for financial management? K3 CO2 (5)
 9. XYZ Company is a publicly traded company with a current dividend payout ratio of 40%. The company has been consistently paying dividends for the past five years. However, it is now considering changing its dividend policy. Discuss the factors that the company should consider when making decisions about its dividend policy. How might these factors influence the company's decision to increase, decrease, or maintain its current dividend payout ratio? K5 CO5 (8)
,CO6
 10. Initial outlay in a project is Rs 1400000. Life of the project is 6 years. Scrap value of the project at end of the life is 200000. Depreciation is to be provided on the straight line method. Tax rate is 45%. The profit before depreciation and tax during the life of the project are as under: K5 CO3 (8)
- | Year | Profit before depreciation and tax |
|------|------------------------------------|
| 1 | 500000 |
| 2 | 520000 |
| 3 | 540000 |
| 4 | 525000 |
| 5 | 500000 |
| 6 | 480000 |

11. X Ltd. wants to raise Rs. 30,00,000 by issue of debentures, preference shares and equity shares. book value of the issues are as follows: K4 CO2 (8)

| | |
|-------------------|---------------|
| Debentures | Rs. 8,00,000 |
| Preference Shares | Rs. 6,00,000 |
| Equity Shares | Rs. 16,00,000 |

Corporate tax rate is 40%

You are able to assess that:

1. The company can issue an eight year Rs.200 face value debenture with an interest rate of 8%. Floation cost would be Rs. 4 per debentures.
2. The 9% Rs.100 face value preference share will be sold for Rs. 110. However, the company will have to pay Rs.8000 as cost of issue.
3. The market value of comapny's equity share of the face value of Rs.10 is Rs.22. The company expects to pay a dividend of Rs.1.50 per share at the end of next year which is expected to grow at the rate of 5%. The company has to incure Rs. 2 per share as floation cost.

Compute the weighted average cost of capital.