Institute of Management Technology
Centre for Distance Learning, Ghaziabad
Recognised by University Grants Commission

IMT- 61

CORPORATE FINANCE

Notes:

a. Write answers in your own words as far as possible and refrain from copying from the text books/handouts.
b. Answers of I[st] Set (Part-A), II[nd] Set (Part-B), III[rd] Set (Part – C) and Set-IV[th] (Case Study) must be sent together.
c. Submit the assignments in IMT CDL H.O.along with the assignments Question Papers for evaluation .
d. Only hand written assignments shall be accepted.

A. First Set of Assignments	5 Questions, each question carries 1.5 marks.
B. Second Set of Assignments	5 Questions, each question carries 1.5 marks.
C. Third Set of Assignments	5 Questions, each question carries 1.5 marks. Confine your answers to 150 to 200 Words.
D. Forth Set of Assignments	Two Case Studies : 7.5 Marks. Each case study carries 3.75 marks.

SECTION - A

1. Between Equity shares and debentures which is preferable for raising additional longer term capital for a manufacturing company and why?

2. The following data has been abstracted from the annual accounts of a company:

Share capital	**Amount in lakhs**
20,000 shares of Rs. 10 each	200.00
General reserve	156.00
Investment allowance reserve	50.00
15 % long term loan	300.00
Profit before tax	140.00
Provision for tax	84.00
Proposed dividends	10.00

Calculate from the above the following details:
A. Return on capital employed, and
B. Return on Net Worth.

3. Answer the following question:
   (i) 'profit maximization is the basic goal of a finance manager'. Discuss.
   (ii) What are the criteria for evaluating proposals to minimize risk ?

4. Using the information given below, compute the payback period under
   (i) Traditional Payback method, and
   (ii) Discounting payback method.

Initial Outlay		Rs. 80,000
Estimated life		Five years
Profit After Tax:		
End of life	1	Rs. 6,000
	2	Rs. 14,000
	3	Rs. 24,000
	4	Rs. 16,000
	5	Nil

Depreciation has been calculated under straight line method. The cost of capital may be taken at 20 per cent per annum and the P.V of Re 1 at 20 per cent per annum is given below:

Year	1	2	3	4	5
P.V factor	0.83	0.69	0.58	0.48	0.40

5. **Answer the following question:**

(i) Operating leverage is determined by firm's cost structure and financial leverage by the mix of debt-equity funds used to finance the firm'. Explain.

(ii) Discuss the major types of currency exposures.

SECTION - B

1. Define working capital. Distinguish between permanent and temporary working capital.
2. Answer the following question:
   a. Explain the difference between managerial synergy and operating synergy.
   b. The consequences of overcapitalization are far more serious and fatal than Undercapitalization,' Discuss.

(a) Following are the details regarding three companies:

A ltd.	**B ltd.**
R= 15 %	10%
Ke= 10%	10%
E = 10%	10%

You are required to calculate the effect of individual payment on the profits of each of the above companies under the following different situations:

a. When dividend is paid 8 per share.

b. When no dividend is paid.

(b) Write a lucid note on current divided practice in India.

4. Examine the problems in the determination of composite cost of capital.
5. What do you mean by optimum capital structure ? Make a list of factors determining optimum capital structure.

SECTION - C

1. What are the various objective of public sector enterprises?
2. Wearwell Ltd. supplies you the following Balance sheet on 31 December 2014:

Liabilities	2013	2014	Assets	2013	2014
Share capital	70,000	74,000	Bank balance	9,000	7,800
Bonds	12,000	6,000	Receivable	14,900	17,700
Account payable	10,360	11,840	Inventories	49,200	42,700
Provision for doubtful debts	700	800	Land	20,000	30,000
			Goodwill	10,000	5,000
Reserves & surplus	10,040	10,560			
	1,03,100	**1,03,200**		**1,03,100**	**1,03,200**

The following additional information has been supplied to you:

(i) Dividends amounting to Rs 3,500 were paid during the year 2014.

(ii) Land was purchased for Rs 10,000

(iii) Rs. 5,000 were written off on goodwill during the year.

(iv) Bonds of Rs. 6,000 were paid during the course of the year.

You are required to prepare a cash flow statement.

3. Explain the role of IFCI and IDBI in providing long term finance to industry.

4. Write a short note:

(a) Financial Risk.

(b) Marginal cost of capital.

(c) Point of indifference.

(d) Dividend policy.

(e) Preference share.

5. Discuss briefly the Net present value method Vs Internal rate of return method of evaluation of projects.

CASE STUDY - 1

Form the following capital structure of a company:

Source	Book value	Market value
Equity share capital (Rs.10 shares)	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of difference sources of finance is an follows:

Equity share capital:	14%
Retained earnings	13%
Preference share capital	10%
Debentures:	5%

Calculate overall cost of capital, using Book value weights.

CASE STUDY - 2

ABC Ltd. is presently selling a product @Rs 10 per unit. The pre-sale are Rs. 30,000 Units, and the variable cost per unit is Rs. 6 and the fixed costs amount to Rs. 60,000.

The average collection period is thirty days. The company proposes to relax its credit standard resulting in a 15 per cent increase in units sales.

The average collection period is expected is increase to 45 days. However, there is to be no change in losses account of bad debts and collection expenses.

The company expects return on investment at 15 per cent.

You are required to advise whether the company should relax its standard.