

**PGDM RM Batch 2014-16**

**Corporate Finance**

**Paper Code RM 203**

**Trimester – II, End-Term Examination: December 2014**

Time allowed: 2 hrs 30 min

Max Marks: 50

Roll No: \_\_\_\_\_

**Section A 15 Marks**

**Attempt three questions out of the following. Each question carries 5 marks**

- A1) What is Risk Return Tradeoff?
- A2) What is capital rationing?
- A3) What are the key determinants of working capital?
- A4) How is wealth maximization superior to profit maximization as an objective?
- A5) Miami Company has Rs15,000 to invest. Management is trying to decide between two alternative uses for the funds as follows. The company's discount rate is 16%.

	Project A	Project B
Investment required	Rs 15,000	Rs 15,000
Single cash inflow at the end of 10 years	0	Rs 60,000
Annual cash inflows	Rs 4000	
Life of the project	10 years	10 years

Which alternative would the company choose?

**Section B 20 Marks**

**Attempt two questions out of the following. Each question carries 10 marks.**

B1) You have been retained as a management consultant by Square Pants, Inc., a local specialty retailer, to analyze two proposed capital investment projects, projects X and Y.

Project X is a sophisticated working capital and inventory control system based upon a powerful personal computer, called a system server, and PC software specifically designed for inventory processing and control in the retailing business.

Project Y is a similarly sophisticated working capital and inventory control system based upon a powerful personal computer and general-purpose PC software. Each project has a cost of Rs10,000, and the cost of capital for both projects is 12%.

B2) Compute operating leverage financial leverage and composite leverage. Please do the interpretation.

The projects expected net cash flows are as follows:

### Expected Net Cash Flow

	Firm A	Firm B	Firm C
Output ( units)	60000	15000	100000
Fixed Cost (Rs)	7000	14000	1500
Variable Cost Per Unit(Rs)	0.20	1.50	0.02
Interest on borrowed funds	4000	8000	-
Selling Price Per Unit (Rs )	0.60	5.00	0.10

B3)“Stability of dividend payment has a market bearing on the market price of a share of a company” Explain?

### Section C 15 Marks

#### Compulsory Case

Compute the operating cycle from the data collected from the last year annual report of a company and estimate the working capital

	Rs
<b>Opening Balance of</b>	
• Raw Materials, Stores & spares etc	3454.84
• Work-in-Process	56.15
• Finished goods	637.98
• Accounts Receivable	756.45
• Accounts Payable	2505.18
<b>Closing Balance of</b>	
• Raw Materials, Stores & spares etc	4095.41
• Work-in-Process	72.50
• Finished goods	1032.74
• Accounts Receivable	1166.32
• Accounts Payable	3087.47

Purchases of 'Raw Materials, Stores & Spares etc.	10676.10
Manufacturing Expenses	1146.76
Depreciation	247.72
Customs & Excise duties	35025.56
Selling, administration & ,financial expenses	4557.48
Sales	54210.65



