Encl. 1

PGDM RM

Corporate Finance

RM 203

Trimester – II , End-Term Examination: December 2019

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ______

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10 Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

Section A

1)Determine weighted average cost of capital using market value weights:

Book Value Structure	Rs
Debentures (100 per debenture)	8,00,000
Preference Shares (Rs 100 per Share)	2,00,000
Equity Rs 10 Per Share	10,00,000

Market Value	Rs
Debentures	110 per debenture
Preference Shares	120 per Preference Share
Equity	22 per share

Based on external investment opportunities, the expected return on such debentures, preference shares and equity shares have been determined at 6.84%, 14.62% and 16.10% respectively **(CILO1)**

OR

Q1).Why money in the future is worth less than similar money today? Give the reasons and explain. **(CILO1)**

2) Investment, financing and dividend decisions are inter-related finance functions. Comment (**CILO 2)**

OR

2) A firm has Sales of Rs 40 lakhs , variable cost of Rs 25 lakhs ,fixed cost of Rs 6 lakhs, 10% debt of Rs 30 lakhs and equity of Rs 45 lakhs. Compute Operating and Financial Leverage. **(CILO 2)**

3) Explaining the replacement policy the Managing Director of AB Ltd stated " It is a waste of money to replace the asset before its useful life is over , not because you are losing the remaining value of the asset but also incurring the avoidable cost on the new asset" Do you agree with the statement ? Give reasons for your answer.

OR

3)"Operating risk is associated with cost structure, whereas financial risk is associated with capital structure of a business concern." Critically examine this statement.

Section B

The management of Sapient Ltd in view of increased competition from overseas owing to the reduction in the excise duty is facing an intense competition in the sector. To give boost to the sliding sales , the management is contemplating an increase in the credit period offered to its customers. At present the company offers 30 days of its credit period to its customers and it proposes to increase it to 60 days , expecting the sales to go up from Rs550 lakhs to Rs 623.75 lakhs on account of changed credit policy.

Since the company has sufficient surplus production and distribution capacity available such an increase in sales can be accommodated without any corresponding increase in overheads. However such a relaxation in credit policy is likely to increase the bad debt loss from 1.5% to 2.75%. The variable cost to sales ratio for the firm is 0.60 and is likely to be maintained in near future also . The receivable turnover ratio for the firm is 13 which is likely to go down to 8 under the proposed policy.
The opportunity cost of capital for Sapient Ltd is 12.5%. Do you recommend lengthening of the credit policy of the firm ?