PP SAVANI UNIVERSITY

Third Semester of MBA Examination

December 2022

SLMB8080 Corporate Finance (Major)

21.12.2022, Wednesday **Time: 09:00 a.m. To 11:30 a.m.** **Maximum Marks: 60**

Instructions:

1. The question paper comprises of two sections.
2. Section I and II must be attempted in same answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.
4. Use of simple calculator is allowed.

SECTION – I

			CO	BTL
Q - 1	**Answer the Following: (Any five)**	**[05]**		
(i)	What is Dividend Discount Method?		2	1
(ii)	Write the Definition of Value.		2	1
(iii)	What is Production Budget?		1	1
(iv)	What is P/E Method?		2	1
(v)	State any two benefits of Business valuation.		2	1
(vi)	What do you mean by Budgetary Control?		1	2
(vii)	Write any two factors considered for fixed sales budget.		1	2
Q - 2	The following data relate to the working of a factory at Wardha for current year	**[10]**	1	3

Capacity Worked, 50%

Fixed Costs,:

Salaries	₹ 84,000	
Rent and rates	₹ 56,000	
Depreciation	₹ 70,000	
Other Administrative exp.	₹ 80,000	₹ 2,90,000
Variable Cost		
Materials	₹ 2,40,000	
Labour	₹ 2,56,000	
Other Exp	₹ 38,000	₹ 5,34,000

Possible sales at various levels of working are.

Capacity (%)	Sales
60	₹ 9,50,000
75	₹ 11,50,000
90	₹ 13,75,000
100	₹ 15,25,000

Prepare a flexible budget and show the forecast of profit at 60, 75, 90 and 100 percent capacity operations.

OR

Q - 2 Goa Co. Ltd. wishes to arrange overdraft facilities with its bankers from the period January to March 2022 when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data given below **[10]** 1 3

Month	Sales (Rs.)	Purchases (Rs.)	Wages (Rs.)	Mfg. Exp. (Rs.)	Office Exp. (Rs.)	Selling Exp. (Rs.)
November	90000	62400	6000	1,500	1000	1000
December	96000	72000	7000	2000	500	2000
January	54000	121500	5500	1,500	750	1000
February	87000	123000	6000	2250	1000	2500
March	63000	134000	7500	2,500	1250	2000
April	70000	140000	8500	2750	1500	2250
May	80000	150000	9000	3,000	1500	2500

Additional Information:

(a) Cash on hand 1-01-2022 Rs.25,000.

(b) 50% of credit sales are realized in the month following the sale and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase.

(c) Lag in payment of manufacturing expenses half month.

(d) Lag in payment of other expenses one month.

Q - 3 The summary statement of financial position of Karan Ltd. as follows **[10]** 2 3

Non-Current Assets		
Land & Building	6,40,000	
Plant & Machinery	3,20,000	
Motor Vehicles	80,000	
Goodwill	80,000	
		11,20,000
Current Assets		
Inventories	3,20,000	
Receivables	2,40,000	
Short-Term investments	60,000	
Cash	20,000	6,40,000
		17,60,000
Equity and Liabilities		
Equity		
Ordinary Shares of ₹ 1		3,20,000
Reserves		5,60,000
4.9% Preference Shares of ₹ 1		2,00,000
-		10,80,000
Non- Current Liabilities		
12% Loan notes	2,40,000	
Deferred Taxation	40,000	2,80,000
Current Liabilities		
Payables	2,40,000	
Taxation	80,000	
Proposed Ordinary Dividend	80,000	4,00,000
		17,60,000

What is the value of an ordinary share using Net Asset Value Method?

OR

Q - 3 (a)	When asset-based valuations are useful?	**[05]**	2	4
Q - 3 (b)	The Premier Instruments Ltd (PIL) had paid the following dividend per share.	**[05]**	2	3

Year	Dividend	Year	Dividend
6	₹ 2.80	3	₹ 2.24
5	₹ 2.58	2	₹ 2.10
4	₹ 2.40	1	₹ 2.00

Assuming 16 per cent required return and ₹ 3per share dividend in year 7(D1)

Compute the value of shares of PIL.

Q - 4	Attempt any one.	**[05]**		
(i)	"Budgetary control is a system which uses budgets as a means of planning and controlling all aspects of producing and/or selling commodities and services." Comment.		1	2
(ii)	Company A has earnings of ₹ 300,000. A similar listed company has an earnings yield of 12.5%. Company B has earnings of $420,500. A similar listed company has a P/E ratio of 7.Estimate the value of each company.		2	3

SECTION – II

Q - 1	Answer the following Questions (Any five)	**[05]**		
(i)	What do you mean by capital budgeting decision?		3	2
(ii)	What is operating cycle?		4	1
(iii)	Narrate the formula for calculation Net present value (NPV).		3	1
(iv)	State any two importance of capital budgeting.		3	1
(v)	What do you understand by Gross and Net working capital.		4	2
(vi)	What is trade credit?		4	1
(vii)	What do you mean by ABC Analysis?		4	1
Q - 2	X Ltd provides Profit and Loss Account as under. Estimate the working capital requirements.	**[10]**	4	3

Particular	Rs.	Particular	Rs.
To Materials used	120000	By Sales	250000
To Wages	20000		
To Manufacturing Expenses (including depreciation Rs. 10000)	30000		
To Office Expenses	14000		
To Selling Expenses	12000		
To Net Profit	54000		
	250000		250000

It is the company's policy to maintain the following stocks.

1. Finished Goods 1½ month's sales
2. Raw Materials 1 month's consumption.
3. Work-in-progress is equal to 1 month's production in terms of materials and ½ month's wages and manufacturing expenses.
4. Credit allowed to customers 3 months and credit allowed by suppliers 2 months.
5. All expenses and wages one month in arrear but selling expenses are paid 2 months in advance.
6. A safety margin of 10 % on total current assets is desirable.

OR

Q - 2 (a)	What is inventory control? Explain methods of inventory control?	[05]	4	2
Q - 2 (b)	"Working capital must be adequate but at the same time not excessive." Comment?	[05]	4	2
Q - 3	Initial investment in two projects X and Y are Rs. 50,000 and Rs. 60,000 respectively. The entire initial investments in both the cases are in fixed assets. Straight line depreciation is allowed for tax purposes. The cost of capital is 10% and tax rate is 40%. EBDT for two projects for their 4 year lives are given below	[10]	3	3

	Year 1 Rs.	Year 2 Rs.	Year 3 Rs.	Year 4 Rs.
EBDT from Project X	18,500	27,000	24,000	15,000
EBDT from Project Y	25,000	25,000	30,000	20,000

Compute the following in respect of each project and hence evaluate the projects.

a) Accounting Rate of Return
b) Pay Back Period
c) Discounted Pay Back Period
d) Net present value (NPV)
e) Profitability Index

OR

Q - 3	What do you understand by capital budgeting? Explain its objectives and	[10]	3	2

importance.

Q - 4	Attempt any one.	[05]		
(i)	Explain Net present value (NPV) and Internal Rate of Return (IRR) method.		3	3
(ii)	Determine Economic Ordering Quantity		4	3

Annual requirement of inventory	40000 units
Cost per unit	Rs. 16
Carrying costs are likely to be	15 %
Cost of placing an order	Rs. 480 per order

CO : Course Outcome Number BTL : Blooms Taxonomy Level

Level of Bloom's Revised Taxonomy in Assessment

1: Remember	2: Understand	3: Apply
4: Analyze	5: Evaluate	6: Create

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