

Program: M.COM PART - I Semester: II Program Code: 2120361
 Course: Corporate Finance Course Code: 59322
 Duration: 2 Hours Examination Pattern: NEP-Autonomous-External Max. Marks: 50

Instructions:

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Draw neat diagrams wherever necessary.

Examination:
REGULAR

- Q. 1 (A) XYZ Ltd. Issues 2,000, 10% preference shares of ₹ 100 each at ₹ 95 each, redeemable after 10 years Calculate the cost of preference share [07]
- (B) A company issued 40,000, 12% redeemable preference share of ₹ 100 each at a premium of ₹ 5 each, redeemable after 10 years at a premium of ₹ 10 each. The flotation cost of each share is ₹ 2. You are required to calculate cost of preference share capital ignoring dividend tax [08]

OR

- (C) The summarised final accounts of two companies are as follows: [15]

Balance Sheet

Liabilities	X Ltd ₹	Y Ltd ₹	Assets	X Ltd ₹	Y Ltd ₹
Share Capital	88,000	88,000	Fixed Assets	1,21,000	96,800
Reserves	42,900	35,200	Current Assets	1,25,400	1,03,400
8% Debentures	22,000	22,000	Less: Current Liabilities	93,500	55,000
	1,52,900	1,45,200		1,52,900	1,45,200

Revenue Statement for the year

Particulars	X Ltd. ₹	Y Ltd ₹
Sale	3,30,000	2,64,000
Less: Cost of Sales	2,37,600	1,98,000
Gross Profit	92,400	66,000
Less: Operating Expenses	63,800	44,000
Net Profit Before Tax	28,600	22,000
Less: Tax	12,100	9,240
Profit after tax	16,500	12,760
Less: Dividend	8,800	6,600
Retained Earning	7,700	6,160

You are required to calculate the following ratios & comments.

- 1) Proprietary ratio
- 2) Capital gearing ratio.
- 3) Gross profit ratio
- 4) Operating ratio.
- 5) Return on capital employed ratio
- 6) Return on proprietors equity ratio.
- 7) Expenses ratio
- 8) Net profit ratio.

Q. 2 Attempt any ONE of the following:

- (A) Annual sales of a company is ₹ 60,00,000. Sales to variable cost ratio is 150% and fixed cost other than interest is ₹ 5,00,000 per annum company has 11% debenture of ₹ 30,00,000 you are required to calculate the operating, financial and combined leverage of the company. [10]

OR

- (B) There are two firms A & B which are identical except A does not use any debt in its capital structure while B has ₹ 90,00,000, 9% debenture in its capital structure. Both the firms have earnings before interest & tax of ₹ 3,60,000 p.a and the capitalization rate is 20%. Assuming the corporate tax of 40%, calculate the value of their firms according to MM Hypothesis. [10]

Q. 3 Attempt any ONE of the following:

- (A) The data relating to two companies are as given below : [10]

Particulars	Company Q	Company R
Equity Capital	9,00,000	4,50,000
12% Debenture	3,00,000	7,50,000
Output (units) per annum	9,000	5,000
Selling price / unit	30	250
Fixed costs per annum	7,00,000	1,40,00,00
Variable cost per unit	10	75

You are required to calculate the operating leverage, financial leverage & combined leverage companies.

OR

- (B) The capital structure of a company consists of equity shares of ₹ 50 lakh, 10 percent preference shares of ₹10 lakh and 12 percent debenture of ₹ 30 lakh. The cost of equity capital for the company is 14.7 percent and income – tax rate for the company is 30 percent. You are required to calculate the (WACC) Weighted Average Cost of Capital. [10]

Q. 4 (A) Attempt the following:

- (a) A firm has sales of ₹ 40 lakhs; Variable cost of ₹ 25 lakhs; Fixed Costs of ₹ 6 lakhs; 10% debentures of ₹ 30 lakhs; and Equity Capital of ₹ 45 lakhs. Calculate Operating and financial leverage. [08]
- (b) There are two firms P and Q which are identical except P does not use any debt in its capital structure while Q has ₹ 8,00,000 ,9% debenture in its capital structure. Both the firms have earnings before interest & tax of ₹ 2,60,000 p.a and the capitalization rate is 10%. Assuming the corporate tax of 30%. Calculate the value of these firms according to MM Hypothesis. [07]

OR

Q. 4 (B) Attempt the following:

- (a) What is quick ratio? What does it signify? [08]
- (b) Explain briefly the limitation of Financial ratios. [07]

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