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MBA (Semester – 2nd)
CORPORATE FINANCE
Subject Code: MBADS1-223
Paper ID: [20260111]

Time: 03 Hours **Maximum Marks: 60**

Instruction for candidates:

1. Section A consists of 10 compulsory short notes of two marks each.
2. Section B consists of Four Units (Unit – I, II, III & IV). Each unit contains two questions of 8 marks each. Student has to attempt one question from each unit.
3. Section C (8 Marks): A short Case Study related to the syllabus.

Section – A **(2 marks each)**

Q1. Define the following:

a) Systematic risk
b) Net present value
c) Annuity
d) Preference shares
e) Retained earnings
f) EBIT
g) Operating leverage
h) Convertible bond
i) Stock split
j) Capital rationing

Section – B **(8 marks each)**

UNIT-I

Q2. Discuss the scope and objectives of financial management.

Q3. What is Capital Asset Pricing Model. Discuss its assumptions. (3)
Calculate beta of stock whose required rate of return is 8%, market rate of return is 6%, risk free rate of return is 4%. Also tell about the nature of stock. Whether stock is aggressive or defensive. (5)

UNIT-II

Q4. a) What is Weighted average cost of capital? (3)
b) The company ABCs' stock is trading at a market price of INR 100. The firm paid a dividend of INR 10 in the last year. If the payout ratio of firm is 60% and return on equity is 20%, calculate the cost of equity for company ABC. Assume flotation cost is 5%. (5)

Q5. a) What is Packing order theory? Explain its significance in capital structure decision. (3)
b) A company selling 1,00,000 units of its products. The selling price per unit is INR25 and variable cost per unit is INR 15. The fixed cost is INR 5,00,000. The financial

break even point for the company is INR 1,50,000. What will be the percentage change in EBIT required to increase EPS by 20%. (5)

UNIT-III

Q6. From the following information about the company ABC, calculate the operating and financial leverage:

Annual sales volume = 10000 units | Variable Operating Cost = INR 5 per unit
Selling Price = INR 10 per unit | Annual interest cost = INR 5,000
Annual fixed operating cost = INR 30000 (8)

Q7. Part a carries 3 marks and b carries 5 marks. Both a and b part are compulsory.

a) Explain the Modigliani – Miller Theory of irrelevance.

b) The present market price of company's equity share is INR 30 per share. The company is expected to pay a dividend of INR 5 at the end of the year. Investors required rate of return on equity is 15%. Assume there is no taxes. Assume Mr. Mohan has 500 shares. Using Modigliani-Miller theory:

a) Assume the company pays out a dividend of INR 5 per share, calculate the expected price per share.
b) Assume company pays no dividend at the end of year, calculate the expected price per year.

UNIT-IV

Q8. What is Economic Order Quantity (EOQ)? Determine the EOQ, total no. of orders in year and time gap between two orders for the company with following information:

Carrying cost per unit of inventory= INR 10 | Purchase cost price per unit = INR 30
Fixed cost per order = INR 20 | Variable cost per unit ordered = INR 2
No. of units required per year = 30,000

Q9. When we use Miller and Orr model? Discuss the important features of the Miller and Orr model.

Section – C **(8 marks)**

Q10. Case Study:

The spartan technology has a proposed a contract with the Digital Systems Company of Michigan. The initial investment in land and equipment will be $120,000. Of this amount, $70,000 is subject to five years MACRS depreciation. The balance is in non-depreciable property. The contract covers six years. At the end of six years, the non-depreciable assets will be sold for $50,000 which is their original cost. The depreciated assets will have zero resale value.

The contract will require an additional investment of $55,000 in working capital at the beginning of first year and of this amount, $25,000 will be returned to the Sparten Technology company after six years. The investment will produce $50,000 in income before depreciation and taxes for each of the six years. The corporation is in a 40%tax bracket and has a 10% cost of capital.

Question

By using NPV method, tell whether the investment should be undertaken?