

**COMMONWEALTH EXECUTIVE  
MBA/MPA PROGRAMME**

**Term-End Examination**

**December, 2010**

**E-10 : CORPORATE FINANCE**

*Time : 3 hours*

*Maximum Marks : 100*

*(Weightage : 70%)*

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**Note :** *Attempt any three questions from Section-A.  
Section B is compulsory. All questions carry equal  
marks.*

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**SECTION - A**

1. What are different forms of a business organization ? Explain the role of finance manager in each form of business organization.
2. Distinguish between :
  - (a) Profit Maximization and Wealth Maximization
  - (b) Current Ratio and Acid Test Ratio
  - (c) Political Risk and Exchange Risk
  - (d) Convertible Securities and Preference shares.

3. What are derivatives and hybrid securities ?  
Explain the purpose for which they are used.
4. What is hedging ? Discuss about the various tools  
and techniques used for hedging purpose.
5. Explain the following:
  - (i) International Mergers
  - (ii) Securitization
  - (iii) Options
  - (iv) Primary and Secondary markets

## SECTION - B

6. Prepare cash budget of a company for April, May and June, 2009 in a columnar form using the following information :

Months	Sales	Purchases	Wages	Expenses
2009	Rs.	Rs.	Rs.	Rs.
January (Actual)	80,000	45,000	20,000	5,000
February (Actual)	80,000	40,000	18,000	6,000
March (Actual)	75,000	42,000	22,000	6,000
April (Budgeted)	90,000	50,000	24,000	7,000
May (Budgeted)	85,000	45,000	20,000	6,000
June (Budgeted)	80,000	35,000	18,000	5,000

You are further informed that:

- (i) 10% of the purchases and the 20% of sales are for cash;
- (ii) The average collection period of the company is  $1/2$  month and the credit purchases are paid off regularly after one month;
- (iii) Wages are paid half monthly and the rent of Rs. 500 included in expenses is paid monthly;
- (iv) Cash and Bank balance as on April, 1 was Rs. 15,000 and the company wants to keep it at the end of every month below Rs.15,000 (but not less than Rs.14,000), the excess cash being put in Fixed Deposits in multiples of Rs.1,000.

7. DLP Pvt. Ltd. is considering the possibility of purchasing a multipurpose machine which cost Rs.10 lakhs. The machine has an expected life of 5 years. The machine generates Rs. 6 lakhs per year before depreciation and tax, and the management wishes to dispose the machine at the end of 5 years which will fetch Rs. 1 lakh. The depreciation allowable for the machine is 25% on written down value and the company's tax rate is 50%. The company approached a NBFC for a five year lease for financing the asset which quoted a rate of Rs.28 per thousand per month. The company wants you to evaluate the proposal with purchase option. The cost of capital of the company is 12% and for lease option it wants you to consider a discount rate of 16%.

	0	1	2	3	4	5
PV @ 12%	1.000	0.893	0.797	0.712	0.636	0.567
PV @ 16%	1.000	0.862	0.743	0.641	0.552	0.476