

COMMONWEALTH EXECUTIVE
MBA/MPA PROGRAMME

Term-End Examination

June, 2010

E-10 : CORPORATE FINANCE

Time : 3 hours

Maximum Marks : 100

(Weightage : 70%)

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- Note :** (i) There are two sections A and B.
(ii) Attempt any **three** questions from Section-A.
(iii) Section-B is compulsory.
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SECTION-A

1. In the context of corporate financial management, explain the goals of an organization.

2. Distinguish between :
 - (a) Net Profit Margin and Return on Equity
 - (b) Operating Lease and Financial Lease
 - (c) Hedging and Insurance
 - (d) Primary and Secondary Markets

3. What do you understand by derivatives, hybrid securities and stock purchase warrant ? How is the value of stock purchase warrant determined ?

4. What is a financial risk ? Discuss the techniques used to reduce financial risks within an organization.

5. Distinguish between mergers and acquisitions. How is the consideration for mergers and acquisitions structured ? Explain.

SECTION - B

6. A Company starting manufacturing operations on 1st January, 2002. It has made adequate arrangements for funds required for fixed assets. It wants you to prepare an estimate of funds required as working capital. It is to be remembered that :

- (a) In the first month there will be no sale, in the subsequent months sale will be 25% cash and 75% credit. Customers will be allowed one month credit.
- (b) Payments for purchase of raw material will be made on one month credit basis.
- (c) Wages will be paid for previous fortnight on the 22nd and the 7th of each month.
- (d) Other expenses will be paid one month in arrear except that 50% of selling expenses are to be paid immediately on sale being effected.

The estimated sales and expenses for the six months, spread evenly over the period subject to

(a) above are as under :

	Rs.
Sales	3,60,000
Materials consumed	1,50,000
Wages	60,000
Manufacturing Expenses	48,000
Administrative Expenses	54,000
Selling Expenses	42,000
Depreciation of Fixed Assets	50,000

The articles produced are subject to excise duty equal to 10% of the selling price. The duty is payable on March 31, June 30, September 30 and December 31, for sales upto February 28, May 31, August 31 and November 30 respectively.

Prepare cash Budget for each of the six months indicating the requirements of Working Capital.

7. Vindhya Papers Ltd. planning to install a captive generator set at its plant. Its Finance Manager is asked to evaluate the alternatives either to purchase or acquire generator on lease basis.

Buying	Initial cost Rs. 5,00,000	Residual Value Rs. 1,60,000
Leasing for 5 years	Annual lease rentals Rs. 1,50,000	Residual value Rs. 90,000 returned to Lessee in 5 years time.

Depreciation @ 20% p.a. on written down value. Corporate tax rate 40%. After Tax cost of debt is 14%. The time gap between the claiming of the tax allowance and receiving the benefit is one year.

Evaluate the lease or buy decision based on the above information. Present value factors for discounting at 14% p.a. are given below.

Year	1	2	3	4	5	6
P.V. factor at 14%	.887	.769	.675	.592	.519	.465