[A-12]
Eng.

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SARDAR PATEL UNIVERSITY
T Y B COM EXAMINATION....Semester VI
2016
FRIDAY, APRIL 1
10.30 am TO 12.30 pm

CORPORATE FINANCE [UB06CCOM01]

Total Marks: 60

NOTE: [1] Figures to the right indicate full marks of each question.
[2] Show necessary workings clearly.

Q1[a] Explain concept and significance of cost of capital. [07]
Q1[b] Discuss methods of computing cost of equity. Illustrate. [08]

OR

Q1[a] The following information is available for Tanu Ltd. [09]

Capital Structure	Book Value [Rs]
Debentures (Rs. 100 per debenture)	20,00,000
Preference shares (Rs. 100 per share)	2,00,000
Equity share capital (Rs. 10 per share)	10,00,000
Reserves and Surplus	18,00,000

Additional information:

1. Equity shares: Sales price Rs. 25. The dividend expected next year is Rs. 2 per share and the anticipated growth rate in dividend is 10%.
2. Assume cost of retained earnings is 3% less than cost of equity.
3. Rs. 100 per preference share redeemable at par, 12 years maturity, 12% dividend rate, 4% flotation cost, Sales price Rs. 100.
4. Rs. 100 per debenture redeemable at par, 10 years maturity, 8% coupon rate, 4% flotation cost, Sales price Rs. 100. The corporate tax rate is 35%.

Calculate WACC using Book Value.

Q1[b] Clarify various concepts of cost. [06]

Q2[a] [07]

Calculate operating cycle from the following information.		
Balance	Opening Balance	Closing Balance
Raw Material	80,000	1,20,000
Work in Progress	20,000	60,000
Finished Goods	60,000	20,000
Debtors	40,000	40,000
Purchase of RM		4,00,000
Wages & Manufacturing Expenses		2,00,000
Sales [100% on credit basis]		10,00,000

The co. obtains a credit for 60 days from its suppliers. Assume 365 days in a year.

Q2[b] Discuss factors determining working capital requirement. [08]

OR

Q2[a] A proforma cost sheet of a company provides the following particulars: [08]

	Cost per Unit (Rs)
Raw Materials	20
Direct Labour	5
Overheads	15
Total cost	40
Profit	10
Selling price	50

- Raw material in stock, on an average, 2 months.
- Work in progress on an average half-a-month (50% Completion).
- Finished goods in stock, on an average, for a month.
- Suppliers of material extend a month's credit.
- Two month's credit is normally allowed to debtors.
- A minimum cash balance of Rs. 25,000 is expected to be maintained.

The production pattern is assumed to be even during the year (12 months). You are required to prepare a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year.

Q2[b] Enlist sources of working capital and explain any two in detail. [07]

Q3[a] Explain credit policy variables. [07]

Q3[b] Prepare a cash budget for 3 months ended 30th september based on the following information. [08]

1. Cash at bank on 1st July Rs. 25,000.
2. Salaries & Wages estimated monthly Rs. 10,000.
3. Interest payable in Aug. Rs. 5000.

Other details:

	June	July	Aug.	Sept.
Cash Sale	-	140000	152000	121000
Credit Sales	100000	80000	140000	120000
Purchases	160000	170000	240000	180000
Other expenses	-	20000	22000	21000

[a] Credit sales are collected 50% in the month sales are made & 50% in the following month.

[b] Collection from credit sales are subject to 5% discount if payment is received during the month of sale and 2.5% if payment is received in the month following.

[c] Creditors are paid either prompt or 30 days basis. It is estimated that 10% creditors are in prompt category.

[d] Other expenses are paid on accrual basis.

OR

Q3[a] What are the motives for holding cash? [04]

Q3[b] From the following information related to materials utilized in a company, Prepare ABC analysis with graph. [07]

Item No.	Average No. of units inventory	Average Cost per unit (Rs.)
1	20,000	60
2	10,000	100
3	32,000	11
4	28,000	10
5	60,000	3.40

Q3[c] The following details are available in respect of a firm: [04]

Annual requirement of inventory	40,000 units
Cost per unit	Rs. 16
Carrying cost are likely to be	15% per year
Cost of placing an order	Rs. 480 per order

Determine the EOQ.

Q4[a] What is optimum capital structure? Explain features of an appropriate capital structure. [07]

Q4[b] The following data relate to ABC Ltd. [08]

	Amount (Rs)
Sales	8,00,000
Operating Expenses:	
Variable (30%)	2,40,000
Fixed	4,00,000
Interest on borrowings	20,000

1. Using the concept of operating leverage, by what percentage will operating profit increase, if there is a 10% increase in sales?
2. Using the concept of financial leverage, by what percentage will taxable profit increase, if operating profit increase by 10%?
3. Using the concept of combined leverage, by what percentage will taxable profit increase, if sales increase by 10%?

OR

Q4[a] "Financial leverage is a double edged sword." Explain with suitable illustration. [07]

Q4[b] Following information is available for four different companies A, B, C, and D. [08]

	A	B	C	D
Equity capital (Rs 10/- per share)	5,00,000	4,00,000	2,50,000	1,00,000
12% Debentures	---	1,00,000	2,50,000	4,00,000
EBIT	1,00,000	1,00,000	1,00,000	1,00,000

Tax rate applicable is 50% to all companies. Calculate EPS for each company.

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