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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management |
| **Course Title: Corporate Finance (Course Code: 40202)**  **End-Term Examination, Term - II (January 2024) Set -A** | |
| **Time Duration: 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *Answer the questions as directed.*
2. *Marks against each question are indicated to its right.*
3. *Do not write anything on the question paper except your roll number.*
4. *MS -Excel can be used from the Institute desktop. All types of calculators are additionally allowed*
5. *Answers have to be submitted in the physical answer sheet.*
6. *Students are supposed to write the MS Excel syntax and the formula used in the answer sheets.*
7. *No Internet access will be given.*
8. *No formula or interest factors tables will be provided.*
9. ***Please submit the Question paper along with the answer sheet. Do not take the question paper outside the examination hall after the conclusion of the exam.***

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**Q1.** Williamson, Inc. has a debt-equity ratio of 2.3. The firm’s weighted average cost of capital is 10%, and its pretax cost of Debt is 6%. The tax rate is 35 %.

1. What is the company’s cost of equity capital?
2. What is the company’s unlevered cost of equity capital?
3. What would the company’s WACC be if the firm’s debt–equity ratio was 0.75? What if it were 1.3? **(6 marks)**

Q2. A person can save Rs. \_\_\_\_\_\_\_\_\_ annually to accumulate Rs. 4, 00,000 by the end of 10 years, if the saving earns an interest of 12 per cent. **(2 marks)**

Q3. Mr. X wants to buy a house which would cost him Rs. 8, 00,000. SFCL has offered to provide 90% finance for 8 years. Mr. X has to bring in 10% of the cost of the house at the time of purchase. He will borrow the amount of his contribution from one of his relatives and will pay back his relative Rs. 40,000 and Rs. 50,000 (which include the amount borrowed and the interest) at the end of the first year and the second year, respectively. The amount borrowed from SFCL has to be repaid along with interest in equated monthly instalments of Rs. 12,800 each, payable at the end of every month over 8 years. If Mr. X borrows 90% of the purchase price from SFCL Ltd., and the rest from his relative, calculate the effective rate of interest per annum involved in the entire transaction **(6 marks)**

**Q4.**  The Rent It Company declared a dividend of $0.60 a share on October 20th to record holders on Monday, November 1st. The dividend is payable on December 1st. You purchased 100 shares of this stock on Wednesday, October 27th. Dissect the situation and suggest how much dividend income will you receive on December 1st from the Rent It Company.  **(3 Marks)**

**Q5.** Consider the following financial statement information for the Rivers Corporation:

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| --- | --- | --- |
| Item | Beginning ($) | Ending ($) |
| Inventory | 18,000 | 15,108 |
| Accounts receivable | 13,182 | 16,973 |
| Accounts payable | 15,385 | 19,778 |
| Net sales |  | 250,384 |
| Cost of goods sold |  | 365,763 |

Discover the operating and cash cycles. Interpret your answer.  **(5 Marks)**

Q6 Classify briefly the key short-term sources of funds commonly utilized by businesses, and how these sources contribute to meeting the working capital requirements of an organization.

**(3 Marks)**

Q7. Susheel Corporation has the following book value capital structure:

Equity capital (10 million shares, Rs. 10 par) Rs.100 million

Preference capital, 11 per cent (1, 00,000 shares, Rs. 100 par) Rs. 10 million

Retained earnings Rs.120 million

Debentures 13.5 per cent (5, 00,000 debentures, Rs. 100 par) Rs. 50 million

Term loans, 12 per cent Rs. 80 million

TOTAL RS.360 MILLION

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at the rate of 7 per cent. The market price per share is Rs. 20.00. Preference stock, redeemable after 10 years, is currently selling for Rs. 75 per share. Debentures, redeemable after 6 years, are selling for Rs. 80 per debentures. The tax rate for the company is 50 per cent.

Calculate WACC using book value weights **(8 Marks)**

Q8. Your company is considering two projects*, M* and *N*. Each of these requires an initial outlay of Rs.50 million. The expected cash inflows from these projects are:

*Year Project M Project N*

1 11 38

2 19 22

3 32 18

4 37 10

1. What is the payback period for each of the projects?
2. What is the discounted payback period for each project if the cost of capital is 12 per cent?
3. If the two projects are independent and the cost of capital is 12 per cent, which project(s) should the firm invest in?
4. If the two projects are mutually exclusive and the cost of capital is 10 per cent, which project should the firm invest in?

**(7 Marks)**

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