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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)** | |
| **Time Duration : 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
2. *Marks against each question are indicated to its right.*
3. *Do not write on the question paper except your roll number.*
4. *MS -excel can be used from the Institute desktop. Any type of calculator is additionally allowed*
5. *Answers have to be submitted in answer sheets given.*
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, interest factor tables will be provided*
9. ***Question papers have to be submitted along with answer sheets. Question papers can’t be taken out of the examination hall after the conclusion of exams.***

**Q1.** Down Under Stores is considering an investment with an initial cost of $236,000. In Year 4, the project will require an additional investment and finally, the project will be shut down in Year 7. The annual cash flows for Years 1 to 7, respectively, are projected as $64,000, $87,000, $91,000, −$48,000, $122,000, $154,000, and −$30,000. If all negative cash flows are moved to Time 0 using a discount rate of 13 per cent. Evaluate the project, if Down Under stores want an ROI of at least 20%. **(6 marks)**

**Q2.** Ms. Kusum has retired recently. She received Rs.5 lakh as her retirement benefits, which she had invested in a bank at a 15% rate of interest. If she expects to live independently for another 15 years, how much money she can withdraw at the end of every year to leave a nil balance in her account at the end of maturity? **(3 marks)**

**Q3.** To buy a car worth Rs. 5,00,000, you are planning to take a loan of Rs. 4,00,000 from a Commercial Bank. The loan is to be repaid along with interest in equated monthly instalments of Rs. 9,000 within 5 years, payable at the end of every month. However, the margin money of Rs. 1, 00,000 is to be borrowed from a local money lender that is to be repaid with interest at a rate of 20 per cent by the end of the year. What is the implicit cost of your borrowed funds for the entire transaction?  **(7 marks)**

**Q4.** A Company has the following capital structure:

Equity (Face value of share is Rs. 100) 30,00,000

Retained Earnings 11,00,000

9% preference Capital 10,00,000

10% Debentures 9,00,000

EBIT of the company is currently Rs. 7,32,000. The company is planning an expansion to the with the following three alternatives:

1. Issue 20,000 equity shares at a premium of Rs. 25
2. Issue 8% Debentures of Rs. 25 lakhs
3. Issue 10,000 equity shares at a premium of Rs. 26 and New Preference Capital of Rs. 5,00,000 at a 10% preference dividend.

The company's post-expansion EBIT is expected to increase to Rs. 8,40,000.

The tax rate applicable to the company is 35%. Advise the company which plans to undertake **(8 Marks)**

**Q5.** Eltros offers a bond with annual payments and a coupon rate of 7 per cent. The yield to maturity is 7.62 percent and the maturity date is 9 years away. The company’s stock goes up by 10% when the equity market goes down by 10%. The Risk risk-free rate is 3.9 per cent and an expected market return is 12.4 per cent. Examine the weighted average cost of capital of the company if the D: E ratio is 5:3 and the tax rate is 33%. **(5 marks)**

**Q6** The XYZ Company declared a dividend of $.70 a share on October 20th to holders of record 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 XYZ Company.  **(3 Marks)**

**Q7** Consider the following financial statement information for the Rivers Corporation:

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| Item | Beginning ($) | Ending ($) |
| Inventory | 18,000 | 19,108 |
| Accounts receivable | 13,182 | 13,973 |
| Accounts payable | 15,385 | 16,676 |
| Net sales |  | 316,384 |
| Cost of goods sold |  | 165,763 |

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

**Q8)** How do businesses typically leverage short-term sources of finance to address immediate working capital needs, and classify the factors that influence the section of these financial instruments in the context of a rapidly changing business landscape? **(3 Marks)**

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