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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, 2025)** | |
| **Time Duration : 2 Hours Total Marks: 40** | |

***General Instructions*:**

*a) Answer the questions as directed. The break-up of the marks is given wherever necessary.*

*b) Marks against each question is indicated to its right.*

*c) Do not write on the question paper except your roll number.*

*d) This exam is completely an MS -excel based exam. No answer sheet will be given.*

*e) Students need to submit one excel workbook as an answer script. The workbook will have multiple worksheets.*

*f) Students need to solve each question in a separate worksheet and name the worksheet with ques no.*

*g) No Internet access will be given.*

*h) No formula, interest factors tables will be provided.*

*i) Students should continually keep saving their work.*

*j) Students should save the final excel answer file with their name and roll no.*

1. Two mutually exclusive projects have 3-year lives and a required rate of return of 10.5 percent. Project A costs $75,000 and has cash flows of $18,500, $42,900, and $28,600 for Years 1 to 3, respectively. Project B costs $72,000 and has cash flows of $22,000, $38,000, and $26,500 for Years 1 to 3, respectively. Using IRR method argue the decision that both the projects should be rejected. **Marks: 4**
2. A project costing $6,200 initially produces cash inflows of $2,860 a year for three years. After the three years, the project will be shut down and will be sold at the end of Year 4 for an estimated net cash amount of $3,300. The required rate of return is 11.3 percent. Support the decision of the finance manager to accept the project.

**Marks: 4**

1. A firm has developed an improved version of its most popular product. To get this improvement to the market will cost $48 million but the project will return an additional $13.5 million for 5 years in net cash flows. The firm's debt-equity ratio is 0.25, the cost of equity is 13 percent, the pretax cost of debt is 9 percent, and the tax rate is 21 percent. All interest is tax deductible. Evaluate the proposed project using NPV?

**Marks: 5**

1. A firm has a debt-equity ratio of .64, a cost of equity of 13.04 percent, and a cost of debt of 8 percent. The corporate tax rate is 35 percent. What would be the cost of equity if the firm were all-equity financed? Compare the cost of equity in both the capital structures. **Marks: 4**
2. A firm has zero debt in its capital structure and has an overall cost of capital of 10 percent. The firm is considering a new capital structure with 60 percent debt at an interest rate of 8 percent. Assuming there are no taxes or other imperfections, what would be the cost of equity with the new capital structure? Contrast the change in the cost of equity. **Marks: 4**
3. ABC Co. has 80,000 bonds outstanding that are selling at par value. Bonds with similar characteristics are yielding 8.6 percent. The company also has 4 million shares of common stock outstanding. The stock has a beta of 1.1 and sells for $40 a share. The U.S. Treasury bill is yielding 4 percent and the market risk premium is 8 percent. The tax rate is 34 percent. Calculate and examine the weighted average cost of capital of ABC Co.? **Marks: 4**
4. You own 300 shares of Abco stock. The firms plans on issuing a dividend of $2.10 a share one year from today and then issuing a final liquidating dividend of $36.45 a share two years from today. Your required rate of return is 14.5 percent. Ignoring taxes, examine what is the value of one share of this stock to you today? **Marks: 4**
5. A firm declared a dividend of $.60 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. Evaluate how much dividend income you will receive on December 1st as a result of this declaration? **Marks: 4**
6. Two corporations A and B have the same risk and both have a current stock price of $100. Corporation A pays no dividend and will have a price of $120 one year from now. Corporation B pays dividends and will have a price of $113 one year from now after paying the dividend. The corporations and investors pay no taxes. Examine what is the value of the dividend that investors expect corporation B to pay one year from today?

**Marks: 4**

1. Compare the liquidity status of two firms, A and B. Firm A has a current ratio of 1.5:1 and firm B has a current ratio of 10:1. **Marks: 3**