



MBA DEGREE EXAMINATIONS: NOV / DEC 2024

(Regulation 2021)

Third Semester

MASTER OF BUSINESS ADMINISTRATION

P21MBE0149: Corporate Finance

COURSE OUTCOMES

- CO1:** Explain the concepts of Corporate Finance.
CO2: Appraise the Capital structure theories and Dividend theories .
CO3: Explain Capital budgeting, long term, and short-term financing .

Time: Two Hours

Maximum Marks: 50

PART A (1 Question x 10 Marks = 10 Marks) Compulsory

- 1 Modern Enterprises Limited is considering the purchase of a new computer system for its research and development division, which would cost Rs.35 lakhs. The operation and maintenance costs (excluding depreciation) are expected to be Rs.7 lakh per annum. It is estimated that the useful life of the system would be 6 years at the end of which the disposal value is expected to be Rs.1 lakh. The tangible benefits expected from the system in the form of reduction in design and draft Manship costs would be Rs.12 lakh per annum. The disposal of used drawing office equipment and furniture initially is anticipated to net Rs.9 lakh. As capital expenditure in research and development the proposal would attract 100% write off for tax purposes. The gains arising from disposal of used assets may be considered tax free. The effective tax rate is 35%. The average cost of capital of the company is 12%. After appropriate analysis of cash flows, assess the financial viability of the proposal. Ignore tax on salvage value. CO3 [K₄]

PART B (5 Questions x 5 Marks = 25 Marks) Answer all the Questions

- 2 Explain the reasons for the rise of the agency problem. CO1 [K₂]
3 Illustrate the concept of Leverage Buy Out with an example of your choice. CO1 [K₂]
4 Summarize the reasons why corporate Form of business organization superior when it comes to raising cash. CO2 [K₂]
5 Interpret he different stages in venture capital financing CO3 [K₂]
6 The selling price is Rs.240 per unit. The variable cost per unit comes to Rs.160 per unit. The fixed costs for the business are Rs.48000 per CO3 [K₂]

annum. Determine the break-even point in units for the business. If sales are 780 units, what will be the profit generated by the business?

PART C (2 Questions x 7.5 Marks = 15 Marks)

- 7 a. The summarized balance sheet of sundry ltd., as on 31-Dec for 3 years are given below,

CO3 [K4]

Liabilities	2021 (₹)	2022(₹)	2023 (₹)
Paid up capital	200	200	200
Long Term Borrowings			
From Banks	70	100	130
From Others	280	350	380
Current Liabilities	50	60	100
Total Liabilities	600	710	810
Assets			
Gross Block	360	365	370
Less: Depreciation	70	100	120
Net Block	290	265	250
Current Assets	150	200	240
P&L Profit	160	245	320
Total Assets	600	710	810

Determine and Interpret 1. Debt Equity Ratio 2. Working Capital 3. Current Ratio 4. Fixed Assets Ratio

OR

- b. Every business is deeply intertwined with Environmental, Social and Governance concerns. Explain how a strong ESG proposition creates value to the organization.

CO1 [K5]

- 8 a. The Alpha Company limited is considering the purchase of a new machine. Two alternatives, Machine A and Machine B, are suggested, each costing Rs.400,000. Earnings after taxation are expected to be as follows,

CO3 [K5]

Year	Machine A (₹)	Machine B (₹)
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target return on capital of 10%. You are required to examine the profitability of the machine and state which alternative you consider is financially feasible.

OR

- b. The average deal value in Mergers during the year 2022 was up 2.4 times that the previous seven years and the volumes were also nearly 41 % higher, In the light of above statement, does Mergers create economic value. Explain

CO1 [K5]
