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Subject Code:- BMBA0202

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NOIDA INSTITUTE OF ENGINEERING AND TECHNOLOGY, GREATER NOIDA
(An Autonomous Institute Affiliated to AKTU, Lucknow)

MBA

SEM: II - THEORY EXAMINATION (2024.- 2025.)

Subject: Corporate Finance

Time: 3 Hours

Max. Marks: 100

General Instructions:

IMP: Verify that you have received the question paper with the correct course, code, branch etc.

1. This Question paper comprises of **three Sections -A, B, & C**. It consists of Multiple Choice Questions (MCQ's) & Subjective type questions.
2. Maximum marks for each question are indicated on right -hand side of each question.
3. Illustrate your answers with neat sketches wherever necessary.
4. Assume suitable data if necessary.
5. Preferably, write the answers in sequential order.
6. No sheet should be left blank. Any written material after a blank sheet will not be evaluated/checked.

SECTION-A

20

1. Attempt all parts:-

1-a. Finance mainly deals with: (CO1,K1)

1

- (a) Marketing and Sales
- (b) Production and Distribution
- (c) Management of money
- (d) Risk Premium

1-b. The agency problem occurs when: (CO1,K1)

1

- (a) The company faces financial loss
- (b) Managers and shareholders have conflicting interests
- (c) The government controls the company.
- (d) Employees make decisions independently

1-c. Opportunity cost refers to the value of the next best alternative foregone: (CO2,K1)

1

- (a) Fixed cost
- (b) Opportunity cost
- (c) Sunk cost
- (d) Marginal cost

1-d. Capital structure refers to: (CO2,K2)

1

- (a) The Ratio Of Current Assets To Current Liabilities.
- (b) The Total Amount Of Cash A Company Has On Hand.

(c) A Distribution Of Equity And Debt That Structures The Financial Resources Of A Company.

(d) The Company's Long-Term Investment Strategy.

1-e. A shorter payback period generally indicates:(CO3,K1) 1

(a) A Riskier Investment With Potentially Higher Returns.

(b) A Less Risky Investment With Faster Cash Recovery.

(c) A Project With A Higher Net Present Value (NPV).

(d) An Investment With A Lower Internal Rate Of Return (IRR).

1-f. A limitation of the NPV method is that it: (CO3,K1) 1

(a) Considers The Time Value Of Money.

(b) Is Easy To Understand And Implement.

(c) Ignores The Project's Risk Profile.

(d) Can Be Used For Projects With Different Lifespans For Direct Comparison.

1-g. In EBIT earning is taken _____.(CO4,K2) 1

(a) Before tax.

(b) Before interest.

(c) Before interest and tax.

(d) After interest and tax

1-h. Financial structure refers to _____. (CO4,K1) 1

(a) A. short-term resources.

(b) All the financial resources.

(c) Long-term resources.

(d) None of the above

1-i. _____ of the following is NOT a potential benefit of mergers and acquisitions.(CO5,K1) 1

(a) Economies of scale

(b) Diversification of business risks

(c) Decreased market share

(d) Access to new markets

1-j. _____ describes a situation where two companies merge to create a new company.(CO5,K1) 1

(a) Acquisition

(b) Horizontal merger

(c) Vertical merger

(d) Merger of equals

2. Attempt all parts:-

2.a. Define traditional finance.(CO1,K1) 2

2.b. Explain opportunity cost and also provide a real-world example. (CO2,K2) 2

- 2.c. Discuss the objective of Capital Budgeting. (CO3, K1) 2
- 2.d. A firm's dividend next year is expected to be ₹3.50, and dividends are projected to grow at 6% per annum. If the cost of equity is 14%, determine the value of the share. (CO4, K3) 2
- 2.e. Discuss the main reasons companies pursue mergers and acquisitions.(CO5,K2) 2

SECTION-B

30

3. Answer any five of the following:-

- 3-a. Describe the sources of finance. (CO1, K1) 6
- 3-b. ABC Ltd. has the following capital structure:(CO1,K4) 6

Equity Share Capital: ₹2,00,000

10% Preference Shares: ₹1,50,000

9% Debentures: ₹1,00,000

Operating Profit (EBIT): ₹1,00,000

Tax Rate: 30%

Required:

Find the Financial Leverage and explain its importance in assessing financial risk.

- 3-c. Differentiate between redeemable and irredeemable preference shares. (CO2, K4) 6
- 3-d. Define Capital structure and also Discuss the factor affecting the capital structure.(CO2, K1) 6
- 3.e. Discuss the significance of IRR in investment appraisal and calculate IRR. (CO3, K3) 6

Initial Investment: ₹3,000

Time Horizon: 5 Years

Cash Flows:

Year 1: ₹600

Year 2: ₹700

Year 3: ₹800

Year 4: ₹900

Year 5: ₹1,000

- 3.f. Discuss different types of dividend policies. (CO4, K2) 6
- 3.g. Explain the macroeconomic factors influencing the frequency and nature of mergers and acquisitions. (CO5, K2) 6

SECTION-C

50

4. Answer any one of the following:-

- 4-a. Compare profit maximization and wealth maximization. (CO1, K2) 10
- 4-b. "Finance is the lifeblood of an industry". Elucidate this statement with suitable 10

examples.(CO1,K2)

5. Answer any one of the following:-

- 5-a. Describe how you will calculate cost of debt, cost of equity and cost of preference share. (CO2,K2) 10
- 5-b. Star Co. Ltd. Issued 20,000, 04% debentures of Rs. 100 each at a discount of 5%. Cost of issue is 2%. And the rate of tax is 50%. Calculate cost of capital before and after tax.(CO2,K3) 10

6. Answer any one of the following:-

- 6-a. Determine the Internal Rate of Return (IRR) for a project with the following cash flows: Initial investment of ₹200,000, Year 1: ₹70,000, Year 2: ₹80,000, Year 3: ₹90,000, Year 4: ₹100,000.(CO3,K3) 10
- 6-b. Discuss the steps involved in the financial planning process. And also Discuss the ways, individuals can ensure that their financial plan remains effective over time. Provide examples to illustrate your points.(CO4,K2) 10

7. Answer any one of the following:-

- 7-a. Explain the fundamental difference between the relevance and irrelevance theories of dividend policy. (CO4,K2) 10
- 7-b. a. Sohna Ltd company has the following details: Earnings per share (EPS) = ₹6 Dividend per share (DPS) = ₹3 Return on retained earnings (r) = 15% Cost of equity capital (Ke) = 12% Calculate the market price of the share using Walter's Model.(CO4,K3) 10

8. Answer any one of the following:-

- 8-a. Describe the impact of mergers and acquisitions on shareholder value and how companies ensure value creation for stakeholders.(CO5,K2) 10
- 8-b. Explain how EVA helps measure shareholder wealth creation. How is it different from Return on Capital Employed (ROCE)? Compute EVA using the following financials:(CO5,K3) 10
- Net Income: ₹75 lakhs
Interest Expense: ₹20 lakhs
Tax Rate: 30%
Total Assets: ₹600 lakhs
Current Liabilities: ₹100 lakhs
Long-Term Debt: ₹200 lakhs
Equity: ₹300 lakhs
Cost of Debt (pre-tax): 10%
Cost of Equity: 13%