M0286
Marks = 75

Q.P. code 23047

1

SYBMS III – CORPORATE FINANCE SYNOPTIC SOLUTION

Q.1. A]	1 marks each x 8 Q = 8 Marks	Q.1. B]	1 marks each x 7 Q = 7 Marks
1	A	1	False
2	B	2	False
3	C	3	True
4	B	4	True
5	A	5	True
6	B	6	False
7	A	7	True
8	D	8	False
9	A	9	True
10	A	10	True

Q.2. A] **INCOME STATEMENT** **(08 Marks)**

	A		B	
Units	18,000		20,000	
Particulars	CPU	Amount	CPU	Amount
Sales	85	15,30,000	120	24,00,000
Less :Variable cost	38	6,84,000	45	9,00,000
Contribution	47	8,46,000	75	15,00,000
Less : Fixed cost		4,00,000		6,00,000
EBIT		4,46,000		9,00,000
Interest		1,25,000		80,000
EBT		**3,21,000**		**8,20,000**
Operating Leverage = Contribution / EBIT	8,46,000 / 4,46,000 = 1.89		15,00,000 / 9,00,000 = 1.67	
Financial Leverage = EBIT / EBT	4,46,000 / 3,21,000 = 1.39		9,00,000 / 8,20,000 = 1.09	

4 Marks 4 Marks

2

Q.2. B] X Ltd **(07 Marks)**

Computation of WACC

Sources of Funds	Amount (Rs.)	Proportion (%)	Cost of Capital After Tax (%)	WACC (%)
Equity Capital	40,000	30.77	5 %	1.54
Preference Capital	10,000	7.69	8%	0.62
Debentures	60,000	46.15	13%	6.00
Retained Earnings	20,000	15.39	9 %	1.39
Total	1,30,000	100		9.55

WACC=9.55 %

OR

Q.2. P] Gates Ltd.

COMPUTATION OF EPS UNDER DIFFERENT FINANCIAL PLAN

Particulars	PLAN I	PLAN II	PLAN III
EBIT	60,50,000	60,50,000	60,50,000
Less : Interest - Existing - New	 8,40,000 2,10,000	 8,40,000 3,36,000	 8,40,000 4,50,000
EBT	50,00,000	48,74,000	47,60,000
Less : Tax @ 50%	25,00,000	24,37,000	23,80,000
EAT	25,00,000	24,37,000	23,80,000
Less: Pref. Dividend - Existing - New	 2,40,000 1,80,000	 2,40,000 72,000	 2,40,000 --------
Profit to Equity Shareholder(A)	20,80,000	21,25,000	21,40,000
No of Existing Shares **(B)**	4,00,000	4,00,000	4,00,000
EPS (A /B)	Rs.5.2 per share	Rs.5.31 per share	Rs.5.35 per share
	5 Marks	**5 Marks**	**4 Marks**

Suggestion: Company should select plan III because it gives highest EPS as compare to Plan I & II. 1 Mark

Working Note: Capital Structure

Source of Funds	Existing Capital	Plan I	Plan II	Plan III
Equity Shares of Rs.10 each	40,00,000			
12% Preference Shares	20,00,000	15,00,000	6,00,000	
14% Debentures	60,00,000	15,00,000	24,00,000	
15% Debenture				30,00,000
Total	**1,20,00,000**	**30,00,000**	**30,00,000**	**30,00,000**

Calculation of Interest and Dividend

	Existing	New
Debentures	60,00,000*14%=8,40,000	15,00,000*14%=2,10,000 Plan I 24,00,000*14%=3,36,000 Plan II 30,00,000*15%=4,50,000 Plan III
Preference Dividend	20,00,000*12%=2,40,000	15,00,000*12%=1,80,000 Plan I 6,00,000*12%=72,000 Plan II

Q.3. A] Future Value (FV) =10,000 (07 Marks)

Interest Rate (I) = 10%

No of Years (N) = 6 years

Present Value (PV) =?

$PV = FV\ [1 / (1 + i)^n\ ]$

$= 10{,}000\ [1 / (1 + 0.10)^6]$

$= 10{,}000*0.5645$

=Rs.5645

B] BEN Ltd

Computation of Expected Return and Standard Deviation

State of Economy	Probability (P)	Rate of Return(R)	P X R	$(R - \overline{R})$	$(R - \overline{R})^2$	Px $(R - \overline{R})$
Boom	0.35	40%	14	8	64	22.40
Normal	0.50	30%	15	(02)	4	2.00
Recession	0.15	20%	3	(12)	144	21.60
			32			46.00

Above Table 4 Marks

Expected Return = 32% 2 Marks

Standard Deviation $= \sqrt{\sum Px\ (\overline{R} - R)}$ 2 Marks

Standard Deviation $= \sqrt{46}$

= 6.78 %

OR

Q.3. P] SPEED LTD (15 Marks)

COMPUTATION OF NPV UNDER DIFFERENRT DISCOUNTING FACTOR

DEPRECIATION = $\frac{8,00,000}{5}$ = 1,60,000

YEAR	CF(BDT)	DEPRECIATION	NPBT	TAX@30%	NPAT	CF(NPAT+DEP)
1	3,00,000	1,60,000	1,40,000	42,000	98,000	2,58,000
2	2,00,000	1,60,000	40,000	12,000	28,000	1,88,000
3	2,50,000	1,60,000	90,000	27,000	63,000	2,23,000
4	2,00,000	1,60,000	40,000	12,000	28,000	1,88,000
5	3,50,000	1,60,000	1,90,000	57,000	1,33,000	2,93,000
					TOTAL	**11,50,000**

5 Marks

CASH FLOW AT DISCOUNTING FACTORS 12% AND 14%

YEAR	CF	PV@12%	PVof CF @12%	PV@14%	PV of CF@14%
1	2,58,000	0.893	2,30,394	0.877	2,26,266
2	1,88,000	0.797	1,49,836	0.769	1,44,572
3	2,23,000	0.712	1,58,776	0.675	1,50,525
4	1,88,000	0.636	1,19,568	0.592	1,11,296
5	2,93,000	0.567	1,66,131	0.519	1,52,067
			8,24,705		**7,84,726**

5 Marks

$$\text{IRR} = D1 + \frac{\text{PV OF CFAT } D1 - \text{PV OF CASH OUTFLOW}}{\text{PV OF CFAT } D1 - \text{PV OF CFAT } D2} * (D2-D1)$$

$$= 12\% + \frac{8{,}24{,}705 - 8{,}00{,}000}{8{,}24{,}705 - 7{,}84{,}726} \times (14\%-12\%)$$

=13.24 % (Apporx) **5 Marks**

5

Q.4. A] NOBLE LTD (15 marks)

Computation of EPS under different financial plan

Particulars	**PLAN A**	**PLAN B**	**PLAN C**
	Equity – 9,00,000 Debt – 1,00,000	Equity – 7,00,000 Debt – 3,00,000	Equity – 4,00,000 Debt. – 6,00,000
EBIT	5,00,000	5,00,000	5,00,000
Less : Interest	10,000	38,000	84000
EBT	4,90,000	4,62,000	4,16,000
Less : Tax @ 50%	2,45,000	2,31,000	2,08,000
EAT	2,45,000	2,31,000	2,08,000
Less: Pref. Dividend	--------	------	------
Profit to Equity Shareholder**(A)**	2,45,000	2,31,000	2,08,000
No of New Shares **(B)**	30,000	23,333	13,333
EPS (A /B)	Rs.8.16 per shares	Rs.9.90 per shares	Rs.15.60 per shares
	5 Marks	**5 Marks**	**4 Marks**

Suggestion: Company should select plan III because it gives highest EPS as compare to Plan I & II. 1 Mark

Working Note: Calculation of Interest on Debt

PLAN I	PLAN II	PLAN III
DEBT = Rs.1,00,000 Interest=1,00,000*10% =**10,000**	DEBT = Rs.3,00,000 Interest = 1,00,000*10% =10,000 =2,00,000*14% =28,000 **Total = 38,000**	DEBT = Rs.6,00,000 Interest = 1,00,000*10% =10,000 =4,00,000*14% =56,000 =1,00,000*18% =18,000 **Total = 84,000**

OR

Q.4. P| BELL LTD

Computation of NPV for Project P and Project Q

		PROJECT P		PROJECT Q	
YEAR	PV @ 15%	CF	PVCF @15%	CF	PVCF@15%
1	0.870	30,000	26,100	40,000	34,800
2	0.756	40,000	30,240	50,000	37,800
3	0.658	50,000	32,900	60,000	39,480
4	0.572	60,000	34,320	80,000	45,760
5	0.497	90,000	44,730	90,000	44,730
PRESENT VALUE OF CASH FLOW (a)			1,68,290		2,05,570
COST OF INVESTMENT (b)			8,00,000		9,00,000
NET PRESENT VALUE = (a - b)			(6,31,710)		(6,94,430)

7 Marks **7 Marks**

Suggestion: NPV for both the Project is **negative**; hence both the Projects should be **rejected.**

1 Mark

Q5.A Explain the Meaning and Significance of Corporate Finance. (08)

Meaning of Corporate Finance = 2 Marks

Significance of Corporate Finance = 6 Marks

B Explain the RBI Guidelines for Public deposits (07)

(Explanation on any 4 -5 points)

OR

Q5.A Write short note on. Any 3 out of 5. (15)

1. Under capitalization
2. Ordinary Shares
3. SEBI Regulations
4. Principles of Corporate Finance
5. Convertible Debentures

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