

BRAINWARE UNIVERSITY

Term End Examination 2018 - 19

Programme –Bachelor of Business Administration

Course Name - Strategic Corporate Finance

Course Code - BBA606F

(Semester - 6)

Time allotted: 3 Hours Full Marks: 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group -A (Multiple Choice Type Question) $10 \times 1 = 10$ 1. Choose the correct alternative from the following At the interest rate of 15%, the 2 years discounting factor will be (i) 0.7561 b. 0.8697 a. 0.9651 d. 1.1225 c. (ii) A formula of X-Y/Z is used for calculating the -- of Business Assets a. Book Value b. Market Value c. Fair Value d. Dividend Decision (iii) Annuity is defined as a. Equal cash flows at equal b. Equal cash flows at equal intervals of time forever intervals of time at a specific period c. Unequal cash flows at equal Unequal cash flows at equal intervals intervals of time forever of time for specific period Normally the Cost of Capital should be -----(iv) a. Equal to IRR b. Less than IRR c. More than IRR d. Corresponding to IRR Modigliani Miller Approach highlights the following aspect in dividend decisions (v) a. Rate of Dividend b. Company tendency to retain earnings

d. Shareholders' expectations

c. Zero impact of market prices

of shares

- (vi) From the following, which is not the direct middleman in the capital market?
 - a. Rating Agencies

b. Broker

c. Banker

- d. Trustee
- (vii) The creditors of company are usually interested in observing the -
 - a. Liquidity Ratio

b. Solvency Ratio

c. Profitability Ratio

- d. Turnover Ration
- (viii) Short Term Period in business is generally-
 - a. Less than 3 Months

b. Less than 6 Months

c. Less than a year

d. Less than 5 years

- (ix) Financial leverage of the company is ascertaining by using-
 - a. Liquidity Ratio

b. Long Term Solvency Ratio

c. Turnover Ratio

- d. Profitability Ratio
- (x) The Steel Authority Of India sold out 5% of their stake to private players & raised \$ 275 Million. This is popularly called as -
 - a. Business Strategy

b. Business Valuation

c. Disinvestment

d. Foreign Direct Investment

Group - B

(Short Answer Type Questions)

 $3 \times 5 = 15$

Answer any three from the following

2. Calculate EVA from the following information is available of a concern:

Debt Capital 12%	₹2000Crores
Equity Capital	₹500 Crores
Reserves and surplus	₹7500 crores
Capital Employed	₹10000crores
Risk-free rate	9%
Beta factor	1.05
Market rate of return	19%
Equity market risk premium	10%
Net operating profit after tax	₹2100 crores
Tax rate	30%

3. Illustrate with a suitable case study the concept of Management Buyin

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From the following information of a manufacturing concern:

1+2+2

- (a) Demonstrate the first stage allocation of overhead costs to the activity cost pools.
- (b) Compute activity rates for the activity cost pools.
- (c) Demonstrate a table showing overhead costs of these 80 assembling units and four processing orders.

Costs of overhead departments:

Manufacturing overhead ₹10,00,000

Selling and administrative overhead ₹600,000

Total overhead costs

₹16,00,000

Distribution of overheads among the activity cost pools:

Activity Cost Pools

	Assembling Units	Processing Orders	Supporting Customers	Other	Total
Manufacturing overhead	60%	25%	5%	10%	100%
Selling and administrative overhead	10%	20%	50%	20%	100%
Total activity	1,000 units	250 orders	100 customers		

Differentiate between Strategic costing and traditional costing

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Analyse the meaning of Liquidation. Critique the circumstances that would initiate the process of liquidation under section 33 of the insolvency and bankruptcy code 2016

Group - C

(Long Answer Type Questions)

 $3 \times 15 = 45$

Answer any three from the following

7. Briefly explain the following: 15

- (i) Equity Shares
- (ii) Venture Capital
- (iii) Lease Financing

15

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8. Taurus Industries Ltd. are thinking of investing in a project costing ₹20 lakhs. The life of the project is 5 years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows:

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Years	Estimated cash flows before				
	depreciation and tax(₹)				
1	800000				
2	1200000				
3	1600000				
4	1600000				
5	2000000				

You are required to evaluate the NPV, PI and IRR for the investment proposal.

- 9. (a) Explain the concept of Capital Rationing
 - (b) Query Ltd. has ₹1000000 available for investment for the year 2006. It has evaluated its option and found that only 5 investment proposals given below have positive NPV. All these investments are divisible. Choose the proposal(s) that the company should accept and explain in details the reason for such selection:

Proposals	Required Initial Investment(₹)	NPV(₹)
A	350000	192500
В	125000	90000
С	250000	125000
D	100000	60000
Е	275000	250000

- 10. (a) Categorise the various types of Costs
 - (b) Paras Ltd. has 12% 15 years redeemable Preference Share Capital having a nominal value of ₹100. If the floatation cost is 5%, evaluate the cost of preference shares under the following situations:
 - i. Issued at 5% discount, redeemed at 10% premium.
 - ii. Issued at 10% premium, redeemed at 5% discount
- 11. (a) Differentiate between financial and real option
 - (b) Critique the Black Scholes Model of Option Pricing
 - (c) Define Strategic Risk Management. Critically analyse its steps
