



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 x 1 = 10

1. *Choose the correct alternative from the following*
 - (i) At the interest rate of 15%, the 2 years discounting factor will be

a. 0.7561	b. 0.8697
c. 0.9651	d. 1.1225
 - (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 intervals of time at a specific period	b. Equal cash flows at equal intervals of time forever
c. Unequal cash flows at equal intervals of time forever	d. Unequal cash flows at equal intervals of time for specific period
 - (iv) Normally the Cost of Capital should be -----

a. Equal to IRR	b. Less than IRR
c. More than IRR	d. Corresponding to IRR
 - (v) Modigliani Miller Approach highlights the following aspect in dividend decisions

a. Rate of Dividend	b. Company tendency to retain earnings
c. Zero impact of market prices of shares	d. Shareholders' expectations

4. 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	--	--

5. Differentiate between Strategic costing and traditional costing 5
6. 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 5

Group – C

(Long Answer Type Questions)

3 x 15 = 45

Answer any *three* from the following

7. Briefly explain the following: 15
- (i) Equity Shares
- (ii) Venture Capital
- (iii) Lease Financing

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: 15

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 5
 (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: 10

Proposals	Required Initial Investment(₹)	NPV(₹)
A	350000	192500
B	125000	90000
C	250000	125000
D	100000	60000
E	275000	250000

10. (a) Categorise the various types of Costs 5
 (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: 10
 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 5
 (b) Critique the Black Scholes Model of Option Pricing 5
 (c) Define Strategic Risk Management. Critically analyse its steps 5