



Paper id: 252193

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Subject Code: KMBN204

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**MBA**  
**(SEM II) THEORY EXAMINATION 2024-25**  
**FINANCIAL MANAGEMENT AND CORPORATE FINANCE**

**TIME: 3 HRS****M.MARKS: 100****Note:** Attempt all Sections. In case of any missing data; choose suitably.**SECTION A****1. Attempt all questions in brief.****2 x 10 = 20**

Q No.	Question	CO	Level
a.	How is asset pricing done by using Capital Asset Pricing Model (CAPM)?	1	K1
b.	Name the macro-economic factors to which asset pricing is sensitive under APT?	1	K1
c.	What is meant by opportunity cost of capital?	2	K2
d.	Identify any two benefits in application of Excel for analyzing projects	2	K2
e.	When do you acquire point of indifference in corporate capital structure?	3	K1
f.	Differentiate between operating and financial leverages.	3	K1
g.	Identify and comment on the forms of dividend distributed to shareholders.	4	K4
h.	Write any two basic assumptions of M-M Hypothesis of Dividend Model.	4	K1
i.	What is meant by exchange ratio at the time of corporate merger?	5	K2
j.	Specify the relationship of post-merger EPS and price per share.	5	K2

**SECTION B****2. Attempt any three of the following:****10 x 3 = 30**

a.	Discuss the important managerial functions under corporate finance. How can the agency problem affect these functions?	1	K3
b.	How is NPV method applied in analyzing the projects? On what points is NPV method different from IRR method of capital budgeting?	2	K3
c.	Bring out the key features of an optimum capital structure. Highlight the important aspects of theories favoring relevance and irrelevance of corporate capital structure.	3	K3
d.	Identify and explain the key factors affecting corporate dividend policy.	4	K3
e.	Elaborate the possible benefits of merger and acquisition for different parties involved in the process of merger and acquisition.	5	K3

**SECTION C****3. Attempt any one part of the following:****10 x 1 = 10**

a.	What are the objectives of corporate valuation models? Elaborate the asset based, earning based and cash-flow based models of corporate valuation.	1	K2
b.	X Limited issues a bond with a face value of Rs 200 each at an interest rate of 10%. The interest is payable semi-annually. The bond is redeemable after 4 years at Rs 210. Cost of debt is 12%. The same bond is available to an investor, Mr. K at a price of Rs. 180. Would you advise Mr. K to buy this bond?	1	K2

**4. Attempt any one part of the following:****10 x 1 = 10**

a.	Differentiate between the component and composite cost of capital. How are the component and composite costs of capital calculated?	2	K2
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b.	A company has the following capital structure on 31 <sup>st</sup> March, 2025:		2	K2
	Source of capital	Amount (Rs)		
	Equity capital (20,000 shares)	10,00,000		
	10% Preference share capital	2,50,000		
	14% Debentures	7,50,000		
	Total capital	20,00,000		
The company's share is selling at Rs 20. Next year expected dividend is Rs 2 per share that will grow at 6% forever. The company is in tax bracket of 50%. You are required to calculate Weighted Average Cost of Capital (WACC) of the given capital structure.				

**5. Attempt any one part of the following: 10 x 1 = 10**

a.	State the significance of leverage analysis for a corporate capital structure. How would you suggest an optimum level of operating, financial and combined leverage for a given business firm?	3	K3
b.	<p>KP Limited currently has an ordinary share capital of Rs 25 lakh, consisting of 25,000 shares of Rs 100 each. The management is planning to raise another Rs 20 lakhs to finance a major programme of expansion through one of the following four possible alternative plans:</p> <p>I. Entirely Rs 20 lakhs through ordinary shares</p> <p>II. Rs 10 lakhs through ordinary shares and Rs 10 lakhs through long term borrowings @ 8% p.a. interest.</p> <p>III. Rs 5 lakhs through ordinary shares and Rs 15 lakhs through long term borrowing @ 9% p.a. interest.</p> <p>IV. Rs 10 lakhs through ordinary shares and Rs 10 lakhs through 5% Preference shares.</p> <p>The Company's expected EBIT will be Rs 8 lakhs. Assuming a corporate tax rate of 46% determine the EPS in each of the four alternatives. Also suggest which alternative is the best and why?</p>	3	K3

**6. Attempt any one part of the following: 10 x 1 = 10**

a.	Elaborate the basic aspects of Gordon's Model and Walter's Model of Dividend Policy.	4	K4	
b.	The following data relate to a firm:		4	K4
	Earnings per share	Rs 10		
	Capitalization rate	14%		
	Retention ratio	40%		
You are required to determine share price using Gordon's Model if IRR is 15%; 14% and 10%.				



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**7. Attempt any one part of the following:**

**10 x 1 = 10**

a.	Differentiate between merger and demerger. Elucidate the common methods used by firms to demerge themselves off operating units?	5	K5																
b.	<p>A Limited is considering a takeover of B Limited and C Limited. The financial data for the three companies are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;">Particulars</th> <th style="width: 15%;">A Ltd.</th> <th style="width: 15%;">B Ltd.</th> <th style="width: 15%;">C Ltd.</th> </tr> </thead> <tbody> <tr> <td>Equity share capital of Rs 10 each (Rs in Million)</td> <td align="center">450</td> <td align="center">180</td> <td align="center">90</td> </tr> <tr> <td>Earnings (Rs in Million)</td> <td align="center">90</td> <td align="center">18</td> <td align="center">18</td> </tr> <tr> <td>Market price of each share (Rs)</td> <td align="center">60</td> <td align="center">37</td> <td align="center">46</td> </tr> </tbody> </table> <p>You are required to calculate:</p> <ol style="list-style-type: none"> <li>i. Price-earnings (P/E) exchange ratios</li> <li>ii. Earnings per share (EPS) of A Limited after the acquisition of B Limited and C Limited separately.</li> </ol>	Particulars	A Ltd.	B Ltd.	C Ltd.	Equity share capital of Rs 10 each (Rs in Million)	450	180	90	Earnings (Rs in Million)	90	18	18	Market price of each share (Rs)	60	37	46	5	K5
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