Retained earnings	₹8,73,00,000
Total shareholder's equity	₹9,80,00,000

(i) If the company were to declare a 12 percent stock dividend what would happen to these accounts? 5

(ii) If, instead, the company declares a 3 for 2 stocks split, what would happen to the accounts? 5

8. (a) If a firm adopts hedging approach to financing, how would it finance its current assets? 4

(b) North-East Corporation (on all equity finaned firm) has a sales lived of ₹2,80,000 with a 10 percent profit margin before interest and tax is. To genrate this sale volume, the firm maintains a fixed-asset investment of ₹1,00,000. Currently the firm maintains ₹50,000 in current assets.

(i) Determine the total asset turnover of the firm and compute the rate of return on total assets before taxes. 2

(ii) Compute the before tax rate of return on assets at different levels of current assets starting with ₹10,000 and increasing in ₹15,000 increments to ₹1,00,000. 6

(iii) What implicit assumption is being made about sales in part (ii)? Appraise the significance of this assumption along with the policy to choose the level of current assets that will maximise the return on total assets as computed in part (ii). 2

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PG (Even) Semester Examination, 2023

BUSINESS ADMINISTRATION

(2nd Semester)

Course No.: CP-202

(Financial Management and Planning)

Full Marks: 70
Pass Marks: 28

Time: 3 hours

The figures in the right margin indicate full marks for the question.

1. (a) "There exist a high level of interdependence between the decision areas of corporate finance".— Elaborate. 4

(b) Bharat Bajaj Company is considerting the purchase of a machine that is expected to provide cash flow as follows :

	End of Year				
	1	2	3	4	5
Cash Flow	₹1200	₹2000	₹2,400	₹1,900	₹1,600

	End of Year				
	6	7	8	9	10
Cash Flow	₹1,400	₹1,400	₹1,400	₹1,400	₹1,400

If the appropriate discount rate is 14 percent, what is the present value of this cash flow stream? 10

Or

2. (a) Explain how a financial manager can, in practice, maximise the wealth of share holders. 4

(b) Mr. Mukherjee is 63 years old and recently retired. He wishes to provide retirement income for himself and is considering an anmuity contract with an Insurance Company. Such a contract pays him an equal amount each year that he lives. For this cash-flow stream, he must put up a specific amount of money at the beginning. According to the Insurance Company, his life expectancy is 15 years, and that is the duration on which the insurance company bases its calculation regardless of how long he actually lives.

(i) If the company a compound annual interest rate of 5 percent in its calculations, what must Mr. Mukherjee pay at the outset for the annuity to provide him with ₹10,000 per year? (Assume that the expected annual payment are at the end of each 15 years). 3

(ii) What would be the purchase price if the compound annual interest rate is 10 percent? 3

(iii) Mr. Mukherjee had ₹30,000 to put into an annuity. How much would be receive each year if the insurance company uses a 5 percent compound annual interest rate in its calculations? A 10 percent compound annual interest rate? 4

3. (a) Explain the distinction between hard and soft capital rationing and outline the reasons why these conditions might occur. 4

(b) ABC company's shareholder's equity account (book value as of December 31, 2021 is as follows :

Common stock (₹5 per value, 10,00,000 stocks)	₹50,00,000
Additional Paid-in capital	₹50,00,000
Retained earnings	₹1,50,00,000
Total shareholder's equity	₹2,50,00,000

Currently the company is under presence from shareholders to pay some dividends. The company's cash balance is ₹5,00,000, all of which is needed for transaction purposes. The stock is trading for ₹7 a share:

(i) Reformulate the shareholder's equity account if the company pays a 15 percent stock dividend. 4

(ii) Reformulate the shareholder's equity account if the company pays a 25 percent stock dividend. 4

(iii) Reformulate the shareholder's equity account if the company declares a 5 for 4 stock splits. 2

Or

7. (a) Define a stock dividend and a stock split. 4

(b) India Trading Co. has 24 lacs of common stock outstanding, and the present market price per share is ₹35. Its equity capitalisation is as follows :

Common stock (₹2 par, 24,00,000 shares)	₹48,00,000
Additional Paid-in capital	₹59,00,000

(b) A company is considering a new product line to supplement its range line. It is anticipated that the new product line will involve cash investment of ₹7,00,000 at time 0 and ₹10,00,000 in year 1. After tax cash inflows of ₹2,50,000 are expected in year 2, ₹3,00,000 in year 3 and ₹3,50,000 in year 4, and ₹4,00,000 each year thereafter through year 10. Though the product line might be viable after year 10, the company prefers to be conservative and end all calculations at that time.

(i) If the required rate of return is 15%, what is the net present value of the project? Is it acceptable? 3

(ii) What is its internal rate of return? 4

(iii) What would be the case if the required rate of return was 10 percent? 1

(iv) What is the projects payback period? 2

Or

4. (a) What is the critical assumption inherent in the capital asset pricing model (CAPM) as it relates to the acceptance criterion for risky investment? 4

(b) Laxmi Enterprise is financed by two sources funds : banks and common stock. The cost of captial for funds provided by bank is k_i, and k_e is the cost of capital for equity funds. The capital structure consists of ₹B worth of bonds and ₹S worth of stocks, where the amounts represent market values. Compute the overall weightage average of cost of capital. 4

(c) Assume that B in part (b) is ₹30 lacs and S is ₹70 lacs. The bonds have a 14 percent yield to maturity, and the stock expected to pay ₹5,00,000 in dividends this year. The growth rate of dividends has been 11 percent and is expected to continue at the same rate. Find the cost of capital if the corporation tax rate on income is 40 percent. 6

5. (a) What is 'total-value-principle' as it applied to capital structure? 4

(b) Qwert Typewriters and Yuiop Typewriters are industrial except for capital structures. Qwert has 50 percent debt and 50 percent equity financing, whereas Yuiop has 20 percent debt and 80 percent equity financing. (All percentages are in market value term). The borrowing rate for both companies is 13 percent in a no-tax world and capital markets are assumed to be prefect. The earning of both companies are not expected to grow and all earnings are paid out to shareholders in the form of dividends.

(i) If you own 2 percent of the common stock of Qwert, what is the amount of return if the company has net operating income of ₹3,60,000 and overall capitalisation rate of the company, K_0 is 18 percent? What is the implied equity capitalisation rate? 4+1=5

(iii) Yuiop has the same net operating income as Qwert. What is the implied equity capitalisation rate of Yuiop? Why does it differ from that of Qwert? 3+2=5

6. (a) Distinguish between active and passive dividend policy. 4