CFP-C6-A19

ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS)

VI SEMESTER B.COM EXAMINATIONS - APRIL 2019

CORPORATE FINANCIAL POLICY

Duration: 2.5 Hours **Max. Marks: 70**

SECTION – A

I) Answer any EIGHT of the following questions. **(8x2=16)**

1. What is corporate financial policy?
2. Give the meaning of P/E Ratio.
3. What is Merger?
4. What are financial goals?
5. Mention any to advantages of equity shares.
6. What is synergy?
7. Mention the purpose of corporate valuation.
8. What is meant by ploughing back of profits?
9. What is growth maximization?
10. What are intangible assets? Give Examples.
11. What do you mean by cost of capital?
12. What is point of Indifference?

SECTION – B

II) Answer any THREE of the following questions. **(3x8=24)**

13. Discuss profit maximization and wealth maximization.

14. The following is the capitals structure and firm's expected after tax component cost of the various sources of finance:

Sources of finance	Amount	Expected after tax cost (%)
Equity Share capital	1300000	20
Retained Earnings	500000	20
Preference Share Capital	300000	50
Debt capital	900000	12

Calculate weighted average cost of capital.

15. A company issues 10000, 10% preference shares of RS.100 each. Cost of issue is Rs.2 per share. Calculate cost of preference capital ,if these shares are issued (a) at par,(b) at a premium of 10%and (c) at a discount at 5%

16. S Ltd is studying the possible acquisition of R Ltd. and the following information is available:

	S Ltd	R Ltd
PAT	Rs.3,00,000	Rs.75,000
Equity Shares outstanding	50000	10000
P/E multiple	3	2

If the merger takes place by exchange of equity shares based on Market Price, what is the number of shares issued to R Ltd after merger?

17. Discuss the various types of mergers.

SECTION – C

III) Answer any TWO of the following questions. (2x15=30)

18. Explain in detail the basis of corporate valuation.

19. What is Financial Policy? Briefly explain the factors to be considered in formulating financing policy.

20. C company is taking over MN company. As per the understanding between the management of the two companies, shareholders of C company would receive 0.6shares of MN company for each share held by them. The relevant data of the two companies are as follows.

Particulars	C company	MN company
Net Sales (Rs. In Lakhs)	120	20
PAT (Rs. In Lakhs)	12	2
No. of Shares(in lakhs)	2.4	1
Earnings per share (in Rs.)	3	2
Market Value per share (in Rs.)	20	16
P/E ratio	14	12

Ignoring the economies of scale and operating synergy. You are required to calculate:

a) Premium paid by C Ltd. To the shareholders of MN Ltd.
b) Number of shares after merger
c) Combined EPS
d) Combined P/E ratio.
e) Market Value per share.
f) Total Market capitalization after merger.

21. J.K Ltd. Has the following book value capital structure as on March 31, 2018:

	Rs.
Equity share capital	40,00,000
11.5% Preference shares	10,00,000
10% Debentures	30,00,000
Total	**80,00,000**

The equity share of the company sells for Rs.20. It is expected that the company will pay next year dividend of Rs.2 per equity share, which is expected to grow forever. Assume a 35% tax rate.

Required:

i) Compute weighted average cost of capital (WACC) of the company based on the existing capital structure.
ii) Compute the New WACC, if the company raises an additional Rs.20 Lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs.2.40 and leave the growth rate unchanged, but the price of equity share shall fall to Rs.16 per share.