**UTTARAKHAND OPEN UNIVERSITY, HALDWANI (NAINITAL)**

**उत्तराखंड मुक्त विश्वविद्यालय हल्द्वानी (नैनीताल)**

**Programme Name-MBA-Third Semester**
**Programme Code-MBA-13**
**Course Name- Corporate Finance**
**Course Code-FM 2101**
**Maximum Marks-40**
**Session -2014-15, Summer**
**Last Date of Submission: 31 January, 2015**

## Section-A

**Section 'A' contains 08 short answer type questions of 5 marks each. Learners are required to answers 4 questions only. Answers of short answer-type questions must be restricted to 250 words approximately.**

**Discuss the following (1-8) –**

1. Objectives of Financial Management
2. Methods of Risk Management
3. Synergy of Mergers and Acquisitions
4. Foreign Currency Management
5. Types of Leverages
6. Profitability Ratios
7. Economic Order Quantity
8. Calculate the Operating Leverage Ratio for each of the four firms A,B,C and D from the following price and cost data. For the purpose of your calculations use a base level of sales of 5,000 units in each case. What conclusions you will derive from the levels of fixed cost and the Degree of Operating Leverage.

| | Firms | | | |
|---|---|---|---|---|
| | A | B | C | D |
| Sales Price per unit | Rs. 20 | Rs.32 | Rs.50 | Rs. 70 |
| Variables Cost per unit | 6 | 16 | 20 | 50 |
| Fixed Operating Cost | Rs. 80,000 | Rs.40,000 | Rs. 2,00,000 | Nil |

## Section-B

**Section 'B' contains 04 long answer-type questions of 10 marks each. Learners are required to answers 02 questions only.**

1. “The finance manger should take account of the time value of money in order to take a correct and objective financial decision.” Elucidate the statement with the help of suitable illustrations.
2. Critically examine the Net Income and Net operating Income approaches to capital structure. Also explain the list of factors determining optimum capital structure.
3. Describe the various factors which are taken into account in determining the working capital needs of a firm.
4. The Progressive Company Ltd. has decided to increase its productive capacity to meet an anticipated increase in demand for its products. The extent of this increase in capacity has still to be determined and a management meeting has been called to decide which of the following two mutually exclusive proposals I and II should be undertaken. On the basis of the information given below, you are required to evaluate the profitability (ignoring taxation) of each proposal on the assumption of cost of capital of 8% and suggest the proposal to be undertaken.

| Particulars | I (Rs.) | II (Rs.) |
|---|---|---|
| Building | 50,000 | 1,00,000 |
| Plant | 2,00,000 | 3,00,000 |
| Installation | 10,000 | 15,000 |
| Working capital | 50,000 | 65,000 |
| Net Income –annual- pre-depreciation profits (note i) | 70,000 | 95,000 |
| Other relevant income/expenditure: | | |
| Sales Promotion (note ii) | - | 15,000 |
| Plant’s scrap value | 10,000 | 15,000 |
| Disposable value of Building (note iii) | 30,000 | 60,000 |

Notes:

(i) The investment life is 10 years.

(ii) An exceptional amount of expenditure on sales promotion of Rs. 15,000 will require to be spent in year 2 on Proposal II. This has not been taken into account in calculating pre-depreciation profits.

(iii) It is not the intention to dispose of the building in ten year's time. However, it is company's policy to take notional figure into account for project evaluation purposes.