66

VI Semester B.Com. Examination, April/May 2015
(Fresh) (2014-15 and Onwards)
COMMERCE
Paper – 6.5 : Elective Paper – III : Corporate Financial Policy

Time : 3 Hours Max. Marks : 100

Instruction : *Answer should be **completely** either in **English** or in **Kannada**.*

SECTION – A

Answer **10** sub-questions of the following, **each** question carries **2** marks. **(2×10=20)**

1. a) Mention any two advantages of equity shares.
   b) What is meant by ploughing back of profits ?
   c) Give the meaning of preference share capital.
   d) Mention the types of mergers.
   e) What is vision ?
   f) What are financial goals ?
   g) What is horizontal merger ?
   h) What is synergy ?
   i) What is corporate valuation ?
   j) Mention the purpose of corporate valuation.
   k) Mention any two differences between shares and debentures.
   l) What is sustained growth approach ?

SECTION – B

Answer **any four** of the following, **each** question carries **8** marks. **(8×4=32)**

2. What are the components of mission statement ?
3. Briefly explain the factors influencing retained earnings.

4. Compute the level of EBIT at which the indifference point between the following financing alternative will occur :

   a) Ordinary share capital Rs. 10,00,000 or 15% debentures of Rs. 5,00,000 and ordinary share capital of Rs. 5,00,000.

   b) Ordinary share capital of Rs. 10,00,000 or 13% Preference share capital of Rs. 5,00,000 and ordinary share capital of Rs. 5,00,000.

   Assume that the corporate tax rate is 50% and the price of the ordinary share is Rs.10 in each case.

5. A Company issues Rs. 5,00,000 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 15,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%.

6. A Ltd. wants to take over B Ltd. and the financial details of both the companies are as below :

Particulars	**A Ltd.** **Rs.**	**B Ltd.** **Rs.**
Equity share capital of Rs. 10 each	1,00,000	50,000
Preference share capital	20,000	–
Share premium	–	2,000
Profit and loss account	38,000	4,000
10% debentures	15,000	5,000
Total Liabilities	**1,73,000**	**61,000**
Fixed assets	1,22,000	35,000
Current assets	51,000	26,000
Total assets	**1,73,000**	**61,000**
Profit after tax and preference dividend	24,000	15,000
Market price per share	24	27

You are required to determine the share exchange ratio to be offered to the shareholders of B Ltd., based on

i) Net assets value and ii) Market price.

SECTION – C

Answer **any 3** of the following questions; **each** question carries **16** marks. **(16×3=48)**

7. Explain the types of business environment.

8. Explain in detail the basis of corporate valuation.

9. Sunny Lamps Ltd. is taking over Moon Lamps Ltd. As per the understanding between the managements of the two companies, shareholders of Moon Lamps Ltd., would receive 0.7 shares of Sunny Lamps Ltd. for each share held by them. The relevant data for the two companies are as follows :

Particulars	**Sunny Lamps Ltd.**	**Moon Lamps Ltd.**
Net sales (Rs. in Lakhs)	40	15
Profit after tax (Rs. in Lakhs)	8	2
Number of shares (Lakhs)	1.6	0.5
Earnings per share (EPS Rs.)	2.5	2
Market value per share (Rs.)	15	10
Price-earning ratio (P/E)	6	5

Ignoring the economies of scale and the operating synergy, you are required to calculate :

i) Premium paid by Sunny Lamps Ltd. to the shareholders of Moon Lamps Ltd.

ii) Number of shares after the merger

iii) Combined EPS

iv) Combined P/E ratio

v) Market value per share and

vi) Total market capitalization after the merger.

10. a) A firm has the following capital structure and after tax cost for different sources of funds used. **6**

Sources of Funds	**Amount Rs.**	**After tax cost**
Debt.	7,50,000	5%
Preference shares	6,00,000	10%
Equity shares	9,00,000	12%
Retained earnings	7,50,000	11%
Total	**30,00,000**	

You are required to compute the weighted average cost of capital.

b) A company has on its books the following amounts and specific costs of each type of capital. **10**

Type of capital	**Book value Rs.**	**Market value Rs.**	**Specific costs (%)**
Debt.	2,00,000	1,90,000	5
Preference	50,000	55,000	8
Equity	3,00,000	6,00,000	15
Retained earnings	1,00,000	–	13
	6,50,000	**8,45,000**	

Determine the weighted average cost of capital using :

a) Book value weights and

b) Market value weights.

How are they differing ? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights ?