VI Semester B.Com. Examination, May 2017
(Semester Scheme) (2016-17 and Onwards) (CBCS) (Fresh)
COMMERCE
Paper – 6.5 : Elective Paper – III : Corporate Financial Policy

Time : 3 Hours
Max. Marks : 70

Instruction: Answer should be written completely in English or in Kannada only.

SECTION – A

1. Answer any five sub-questions. Each sub-question carries two marks. (5x2=10)
   a) What is wealth maximisation?
   b) Mention any two advantages of Preference Shares.
   c) What do you mean by cost of capital?
   d) What is synergy?
   e) Give the meaning of retained earnings.
   f) What is conglomerate merger?
   g) State any two sources of finance.

SECTION – B

Answer any three questions. Each question carries six marks. (3x6=18)

2. Compute the level of EBIT at which the indifferent point between the following alternatives:
   a) Ordinary Share capital of 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 ordinary shares is Rs. 10 in each case.
3. The following is the capital structure and firm expected after tax component cost of the various source of finance.

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>Amount in Rs.</th>
<th>Expected after Tax cost (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital</td>
<td>3,25,000</td>
<td>20</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,25,000</td>
<td>20</td>
</tr>
<tr>
<td>Preference share capital</td>
<td>75,000</td>
<td>50</td>
</tr>
<tr>
<td>Debt capital</td>
<td>2,25,000</td>
<td>12</td>
</tr>
</tbody>
</table>

Calculate weighted average cost of capital.


5. Explain the advantages of mergers and acquisition.

6. Explain in brief the factors affecting retained earnings.

**SECTION – C**

Answer any three questions. Each question carries fourteen marks. (3×14=42)

7. Explain the factors to be considered in formulating corporate financial policy.

8. Explain briefly the different methods of corporate valuation.

9. Explain the features and advantages of profit maximisation.

10. RD Company is taken over MD Company. As per the understanding between the management of two companies, share holders of RD Company would receive 0.6 shares of MD Company for each shares held by them. The relevant data for the two companies are as follows.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>MD Company</th>
<th>RD Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (Rs. in lakhs)</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>Profit after tax (Rs. in lakhs)</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>No. of shares (in lakhs)</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Earning Per Share</td>
<td>1.50</td>
<td>1</td>
</tr>
<tr>
<td>Market value per share</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>7</td>
<td>6</td>
</tr>
</tbody>
</table>
Ignoring the economies of scale and operating synergy, you are required to calculate

I) Premium paid by MD Ltd. to the shareholders of RD Ltd.

II) Number of shares after merger.

III) Combined EPS.

IV) Combined P/E Ratio.

V) Market value per share.

VI) Total market capitalisation after merger.

11. From the following capital structure of the company calculate the overall cost of capital using:

   1) Book value weights
   2) Market value weights

<table>
<thead>
<tr>
<th>Sources</th>
<th>Book value</th>
<th>Market value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital (Rs. 10 per share)</td>
<td>45,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>15,000</td>
<td>NII</td>
</tr>
<tr>
<td>Preference share capital</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Debentures</td>
<td>30,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

The after tax cost of different sources of finance is as follows:

1) Equity share capital 13%
2) Retained earnings 12%
3) Preference share capital 12%
4) Debentures 5%.
VI Semester B.Com. Examination, May 2017  
(2014-15 and Onwards) (Repeaters)  
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.  

(2x10=20)  

1. a) What is profit maximization ?  
b) What is cumulative preference shares ?  
c) Mention any two disadvantages of retained earnings.  
d) What is WACC ?  
e) What is ploughing back of profits ?  
f) What are financial goals ?  
g) What is merger ?  
h) Give the meaning of the P/E ratio.  
i) State the formula for EPS.  
j) What is temporary working capital ?  
k) What is tax evasion ?  
l) What is interest rate swaps ?  

SECTION – B  

Answer any four of the following. Each question carries 8 marks.  

(8x4=32)  

2. Explain in brief criticism of wealth maximization.  
3. Explain the sources of finances for corporates.  
4. Discuss the types of mergers.  
5. Explain the objectives of revaluation.  

P.T.O.
6. Srushti Ltd. has a total capitalisation of Rs. 10 lakhs consisting entirely equity capital (Rs. 10 each). It is planning to raise an additional funds of Rs. 5 lakhs for implementing capital budgeting project. There are two alternatives available to the company.

   a) Entire equity share capital by issue of shares,
   b) Entire amount by debt at 10 percent interest.

   The company is in the tax brackets of 50 percent. Calculate indifference point.

   **SECTION – C**

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

   7. Explain the factors to be considered in formulating Financial Policy.
   8. Explain the different methods of corporate valuation.
   9. Explain the factors influencing the working capital.
   10. Sneha and Co. Ltd. wants to takeover Akshay and Co., and the financial details of both are as below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Sneha and Co.</th>
<th>Akshay and Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference share capital</td>
<td>20,000</td>
<td>–</td>
</tr>
<tr>
<td>Equity share capital of Rs. 10 each</td>
<td>1,00,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Share premium A/c</td>
<td>–</td>
<td>2,000</td>
</tr>
<tr>
<td>Profit and Loss A/c</td>
<td>38,000</td>
<td>4,000</td>
</tr>
<tr>
<td>10% debentures</td>
<td>15,000</td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td><strong>1,73,000</strong></td>
<td><strong>61,000</strong></td>
</tr>
<tr>
<td>Fixed Assets less depreciation</td>
<td>1,22,000</td>
<td>35,000</td>
</tr>
<tr>
<td>Current Assets</td>
<td>51,000</td>
<td>26,000</td>
</tr>
<tr>
<td></td>
<td><strong>1,73,000</strong></td>
<td><strong>61,000</strong></td>
</tr>
<tr>
<td>Profit after tax and pre dividend</td>
<td>24,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Market price</td>
<td>24</td>
<td>27</td>
</tr>
</tbody>
</table>

   What should be share exchange ratio to be offered to the shareholders of Akshay and Co. Ltd. based on
   (i) Net Assets Value (NAV), (ii) EPS (iii) Market price.

   Which should be preferred from the point of view of Sneha and Co. Ltd.?
VI Semester B.Com. Examination, May 2016
(Fresh + Repeaters) (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. (2x10=20)

1. a) Mention any two advantages of Equity Shares.
   b) What is corporate financial policy?
   c) What is profit maximisation?
   d) What is ploughing back of profits?
   e) What are financial goals?
   f) What is conglomerate merger?
   g) What is synergy?
   h) What is corporate valuation?
   i) What is horizontal merger?
   j) Distinguish between equity shares and debentures.
   k) Name two methods of mergers.
   l) State the formula for P/E ratio.

SECTION – B
Answer any four of the following. Each question carries 8 marks. (8x4=32)

2. Define vision and mission statement. Distinguish between the two statement.
3. Discuss the types of mergers.
4. Explain in brief the factors influencing retained earning.
5. Explain the limitation of profit maximisation.
6. Compute the level of EBIT at which the indifference point between the following financing alternative occur:
   
a) Ordinary share capital of Rs. 10,00,000 or 15% debentures of Rs. 5,00,000 and ordinary shares capital of Rs. 5,00,000.

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

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

SECTION - C

Answer any 3 of the following questions. Each question carries 16 marks. (16 x 3 = 48)

7. Explain the scope and contents of a financial policy.

8. Explain briefly the different methods of corporate valuation.

9. Explain the types of business environment.

10. Active Ltd. is taking over Bright Ltd. As per the understanding between the management of the two companies, shareholders of Bright Ltd. would receive 0.7 share of Active Ltd. for each share held by them. The relevant data for the two companies are as follows:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Active Ltd.</th>
<th>Bright Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales (Rs. in lakhs)</td>
<td>40</td>
<td>15</td>
</tr>
<tr>
<td>Profit after tax (Rs. in lakhs)</td>
<td>8</td>
<td>2</td>
</tr>
<tr>
<td>Number of shares (lakhs)</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Earning per share (EPS Rs.)</td>
<td>2.5</td>
<td>2</td>
</tr>
<tr>
<td>Market value per share (Rs.)</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Price Earning Ratio (P.E.)</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>

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

i) Premium paid by Active to the shareholders of Bright Ltd.

ii) No. of shares after the merger

iii) Combined EPS

iv) Combined P/E ratio

v) Market value per share and

vi) Total market capitalisation after the merger.
VI Semester B.Com. Examination, April/May 2015
(Fresh) (2014-15 and Onwards)
COMMERCES
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. (2x10=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. (8x4=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 alternatives 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:

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

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. \((16 \times 3 = 48)\)

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:

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

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.

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>Amount</th>
<th>After tax cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>7,50,000</td>
<td>5%</td>
</tr>
<tr>
<td>Preference shares</td>
<td>6,00,000</td>
<td>10%</td>
</tr>
<tr>
<td>Equity shares</td>
<td>9,00,000</td>
<td>12%</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>7,50,000</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30,00,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Type of capital</th>
<th>Book value</th>
<th>Market value</th>
<th>Specific costs (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt</td>
<td>2,00,000</td>
<td>1,90,000</td>
<td>5</td>
</tr>
<tr>
<td>Preference</td>
<td>50,000</td>
<td>55,000</td>
<td>8</td>
</tr>
<tr>
<td>Equity</td>
<td>3,00,000</td>
<td>6,00,000</td>
<td>15</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,00,000</td>
<td>–</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,50,000</strong></td>
<td><strong>8,45,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

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?