



US – 491

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. **(5×2=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. **(3×6=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.

P.T.O.



3. The following is the capital structure and firm expected after tax component cost of the various source of finance.

Source of finance	Amount in Rs.	Expected after Tax cost (%)
Equity share capital	3,25,000	20
Retained earnings	1,25,000	20
Preference share capital	75,000	50
Debt. capital	2,25,000	12

Calculate weighted average cost of capital.

4. What is mission statement ? State the components of mission statement.
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.

Particulars	MD Company	RD Company
Net sales (Rs. in lakhs)	60	10
Profit after tax (Rs. in lakhs)	6	1
No. of shares (in lakhs)	1.2	0.5
Earning Per Share	1.50	1
Market value per share	10	8
P/E ratio	7	6

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

Sources	Book value	Market value
Equity share capital (Rs. 10 per share)	45,000	90,000
Retained earnings	15,000	Nil
Preference share capital	10,000	10,000
Debentures	30,000	30,000

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%.