

**COMMONWEALTH EXECUTIVE  
MBA/MPA PROGRAMME**

**Term-End Examination**

**June, 2007**

**E-10 : CORPORATE FINANCE**

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

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**Note :** Attempt any **three** questions from Section A. Section B is **compulsory**. All questions carry equal marks. Present value and annuity tables would be provided if asked for.

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**SECTION A**

1. (a) What are the various forms of business organizations ? Explain their advantages and disadvantages.
  
- (b) Explain the concept of agency problem and discuss the ways and means to control the same.

2. (a) What set of ratios will you use to find out :
- (i) Effective utilisation of resources ?
  - (ii) Value of an organization for investment purpose ?

Discuss.

- (b) What factors are taken into consideration while making lease or buy decision ? Discuss fully.

3. What are Convertible Securities ? Explain the process of valuation of convertible securities.

4. What are mergers and acquisitions ? What are the synergies created by mergers and acquisitions ?

5. "Many of the decisions made in a domestic company and an international company are the same, but the risks involved may be quite different." Explain this statement and describe the risks involved in case of international companies.

## SECTION B

6. A lessor may purchase equipment for Rs. 1,00,000. It has a five-year life and the lease will be for 5 years. The projected salvage value is Rs. 10,000 to be discounted at 25%. The company is earning 10% (after taxes) on its marginal investments. Determine the annual lease payments made at the start of each year and then at the end of each year.
7. Prepare cash budget of a company for April, May and June 2006 in a columnar form using the following information :

Months	Sales	Purchases	Wages	Expenses
January (Actual)	80,000	45,000	20,000	5,000
February (Actual)	80,000	40,000	18,000	6,000
March (Actual)	75,000	42,000	22,000	6,000
April (Budgeted)	90,000	50,000	24,000	7,000
May (Budgeted)	85,000	45,000	20,000	6,000
June (Budgeted)	80,000	35,000	18,000	5,000

You are further informed that :

- (i) 10% of the purchases and 20% of the sales are for cash.
- (ii) The average collection period of the company is 1/2 month and the credit purchases are paid off regularly after one month.
- (iii) Wages are paid half-monthly and the rent of Rs. 500 included in expenses is paid monthly.
- (iv) Cash and bank balances as on April 1<sup>st</sup> was Rs. 15,000 and the company wants to keep it at the end of every month below Rs. 15,000 (but not less than Rs. 14,000), the excess cash being put in fixed deposits in multiples of Rs. 1000.