

PG Odd Semester (CBCS) Exam., November—2016

BUSINESS ADMINISTRATION

(3rd Semester)

Course No. : MBACC-3101

(Corporate Financial Decision)

Full Marks : 70Pass Marks : 28

Time : 3 hours

*The figures in the margin indicate full marks
for the questions*

Answer **all** questions

1. Define the terms 'business risk' and 'financial risk'. Explain the relation between business risk and financial risk. 6+8=14

OR

2. Define corporate governance. What are the main elements of report on corporate governance in the annual reports of companies? 4+10=14

3. ABC Ltd. is considering an investment proposal to install new milling controls at a cost of ₹ 50,0000. The facility has a life expectancy of 5 years and there is no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated Cash Flows Before Depreciation and Tax (CFBDT) from the investment proposal are as follows :

Year	CFBDT (in ₹)
2011	1,00,000
2012	1,06,920
2013	1,27,690
2014	1,34,620
2015	2,03,850

Compute the following :

14

- (a) Payback period
(b) Average rate of return
(c) Discounted payback period
(d) Internal rate of return
(e) NPV at 10% discount rate

4. (a) XYZ Ltd. wishes to raise ₹ 30,00,000 through a right offering. It has currently 240000 shares outstanding which have been most recently trading between ₹ 106 and ₹ 116 per share. On the advice of PQ Securities Ltd., XYZ Ltd.

(3)

has set the subscription price for the rights at ₹ 100 per share on the assumption that they will be fully subscribed.

(i) How many new shares should XYZ sell to raise the desired amount?

(ii) How many shares will each right entitle a holder of one share to purchase?

(iii) What is the theoretical value of a right if the current market price is ₹ 109 with rights and the subscription price is ₹ 100? Answer for both the shares selling with rights and shares selling ex-rights. 9

(b) Discuss the process of offer to public through book-building. 5

5. (a) What is financial distress? State the causes of financial distress in general. 2+4=6

(b) Critically discuss the causes of financial distress in case of Satyam Computer and Lehman Brothers. 8

OR

6. (a) Briefly explain the direct and indirect cost of bankruptcy. 6

(4)

(b) Calculate Altman's z-score model with imaginary figure and interpret the result. 8

7. Critically explain the efficient market hypothesis. What are different forms of efficient market hypothesis? Do you think that Indian Stock Market is efficient? Give reasons for your answer. 3+4+7=14

OR

8. Write short notes on any four of the following : 3½×4=14

(a) January effect

(b) Lunar effect

(c) Days of the week effect

(d) Winner's curse

(e) Halloween Indicator
