STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2015 – 2016 and thereafter)
SUBJECT CODE: 15CM/MC/CF55

B.Com.(A&F) DEGREE EXAMINATION NOVEMBER 2019
ACCOUNTING AND FINANCE
FIFTH SEMESTER

COURSE	**:**	**MAJOR – CORE**
PAPER	**:**	**CORPORATE FINANCE**
TIME	**:**	**3 HOURS**

MAX. MARKS: 100

SECTION – A

ANSWER ALL QUESTIONS: **(10 x 2 = 20)**

1. Define the term venture capital.
2. What do you mean by optimum capital structure?
3. State the features of capital budgeting?
4. What is meant by corporate restructuring?
5. What is stock dividend?
6. X Ltd., is expecting an annual EBIT of Rs.1 lakh. The company has Rs.4 lakhs in 10% debentures. The cost of equity capital or capitalization rate is 12.5%. You are required to calculate the total value of the firm. Also state the overall cost of capital.
7. A project requires initial investment of Rs.40,000 and it will generate an annual cash inflow of Rs.10,000 for 6 years. You are required to find out the pay-back period.
8. A company issues debentures worth Rs.12 crores at 12%. Its earnings before interest and tax amount to Rs.3 crores. Its overall cost of capital is 14%. You are required to find out the cost of equity stock according to the assumptions of the MM theory.
9. Hensman Ltd. earns Rs.15 per share. The company is capitalized at a rate of 12% and has a return on investment of 18%. According to Walter's formula, what should be the price per share at 60% dividend pay out ratio?
10. A project costs Rs.25,000 and it generates inflows of Rs.9000, Rs.8000, Rs.7000, Rs.6000 and Rs.5,000 through a period of five years. The required rate of return is assumed to be 10%. Find out the NPV of the project.

SECTION – B

ANSWER ANY FIVE QUESTIONS: **(5 x 8 = 40)**

11. Explain the different methods of venture capital financing.
12. Jennifer Ltd. is expecting an annual EBIT of Rs.2,00,000. The company has Rs.2,00,000 in 10% Debentures. The equity capitalization rate(Ke) is 12%.You are required to ascertain the total value of the firm and overall cost of capital. What happens if the company borrows Rs.2,00,000 at 10% to repay equity capital?

13. From the following information advise the management as to which project is preferable based on the pay-back period. Two project, viz,X and Y requires an investment of Rs.30,000 each. The standard cut off period for the company is 5 Years.

14. Briefly explain the mechanics of Merger?

15. Calculate the market price of a share of ABC Ltd., under (1) Walter's formula and (b) Dividend growth model from the following data.

Earnings per share	Rs.5
Dividend per share	Rs.3
Cost of capital	16%
Internal rate of return on investment	20%
Retention ratio	40%

16. Z Ltd., has earnings before interest and taxes (EBIT) of Rs.80,000. It expects a return on investment of 16%. Find out the value of the firm according to the MM Approach.

17. Company X and Company Y are in the same risk class and are identical in every fashion except that company X uses debt while company Y does not. The levered firm has Rs.9,00,000 debentures carrying 10% rate of interest. Both the firms earn 20% before interest and taxes on their total assets of Rs.15,00,000. Assuming a tax rate of 15% for an all equity company, compute the value of firm X and Y using the net income approach.

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x 20 = 40)

18. Sun Ltd., expects a net operating income of Rs.2,40,000. It has Rs.12,00,000, 10% Debentures. The overall capitalization rate is 15%. Calculate the value of the firm and cost of equity according to the NOI approach.

19. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of five years and have initial cash outlays of Rs.1,00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows:

Year	Project X	Project Y
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

You are required to calculate (a) Pay back period (b) Average rate of return (c) NPV and profitability index for each project. On the basis of your calculation advise the company which project it should accept giving reasons.

20. RRP Ltd., earns a profit of Rs.45% per share. The rate of capitalization is 18% and the productivity of retained earning is 13%. Using Gordon's Model, compute the market price per share if the payout is (a) 20% (b) 40% (c) 60% (d) 80%.

21. Explain internal and external sources of corporate finance?

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