STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2009 – 2010)

SUBJECT CODE: CM/PC/CF34

M.Com. DEGREE EXAMINATION NOVEMBER 2010
COMMERCE
THIRD SEMESTER

COURSE	**:**	**CORE**	
PAPER	**:**	**CORPORATE FINANCE**	
TIME	**:**	**3 HOURS**	**MAX. MARKS: 100**

SECTION – A

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

1. Evaluate Debt and Equity as sources of funds from the Firm's point of view.
2. What are Agency Costs? Explain the various elements of Agency Costs.
3. What do you mean by Corporate Governance? Explain its characteristic features.
4. Define Working Capital. Briefly explain the factors that affect the working capital of a firm.
5. Distinguish between Mergers and Acquisitions. What are the motives influencing Mergers and Acquisitions?
6. Explain the various disinvestment techniques adopted by a Corporate.
7. a) R Ltd requires 90000 units of a certain item annually. The cost per unit is Rs.30. The cost per purchase order is Rs.300 and the inventory carrying cost is Rs.6 per unit, per year. Calculate the Economic Order Quantity. If the supplier offers a discount of 2% for orders of 6000 units or above, would you recommend accepting the offer?

   b) A Ltd currently allows 45 days credit. Its existing sales are Rs.2.4 crores. Its cost of capital is 15% and the PV ratio is 20%. The firm is considering extending the credit period to 60 days. This will increase sales by Rs.60 lakhs, on which a 5% bad debts is expected. Should the firm extend the credit period? Assume a year is 360 days and debtors are valued at variable cost.
8. Explain SEBI guidelines on procedure relating to venture capital & securities sales by public companies.

SECTION – B

ANSWER ANY THREE QUESTIONS: **(3 x 20 = 60)**

9. Explain the factors that determine the dividend policy of a firm. Write a note on Stability of dividends.

10. a) What do you mean by Share Exchange Ratio? What are the different ways to compute it?
    b) P Ltd is considering to acquire X Ltd through exchange of shares in proportion to the market value per share. The financial data of the companies are given in the following table.

	P Ltd	**X Ltd**
Profit after tax	Rs.40,000	Rs.8,000
No of shares	10,000	4,000
Market value per share	Rs.60	Rs.15
PE ratio	15	7.5

Calculate the exchange ratio for the acquisition. What would be the impact on the earnings of the shareholders of the two companies, before and after merger?

11. A company plans a production of 1,04,000 units per annum. The unit cost of production comprises of Raw material Rs.8,Labour Rs.3 and Overheads Rs.6. the selling price is fixed at Rs.20 per unit.
    Raw material is in stock for 4 weeks.
    Work in progress is in stock for 2 weeks (assume 50% completions)
    Finished stock storage period 4 weeks
    Credit allowed by suppliers 4 weeks
    Credit allowed to debtors 8 weeks
    Lag in payment of wages 1.5 weeks
    Overheads are paid 2 weeks in advance
    Cash at bank is expected to be Rs.25000
    20% of the sales are for cash
    Compute the net working capital at cash cost, adding 10% for contingencies.

12. What are the benefits and costs of going public? List out the conditions to be satisfied and the steps involved in an IPO.

13. Write short notes on:
    a) ESOP
    b) Rights issue and Bonus shares
    c) Financing policy of Working Capital
    d) Venture capital