

B.Com.(A&F) DEGREE EXAMINATION NOVEMBER 2017
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 Corporate Finance.
2. List out the internal sources of Finance.
3. Write a short note on decision tree analysis.
4. What is merger?
5. What do you mean by capital structure?
6. Calculate payback period from the following.
Initial investment=Rs.500000; Annual cash inflow=Rs.145000; Life of a project=7 years
7. If $t_c = 40\%$, $t_{ps} = 10\%$ and $t_{pd} = 40\%$, what is the tax advantage per rupee of debt?
8. Find out the value of a firm from the following.
25000 Equity shares of Rs.100 each, $K_e=12\%$, 9% Debentures=Rs.500000
9. Find out the value of equity from the following:
80000 equity shares of Rs.100 each; Cost of equity=13%. Market value per share=Rs.135
10. The expected cash flows of a project are as follows:
Year: 0 1 2 3 4 5
Cash flow: (1,00,000) 20,000 30,000 40,000 50,000 30,000
Calculate NPV if cost of capital is 12%

SECTION – B

ANSWER ANY FIVE QUESTIONS:

(5 x 8 = 40)

11. Debt equity mix will affect the value of a firm-prove.
12. Alpha Ltd. has 50,00,000 of debt carrying an interest of 12%. Its EBIT is Rs.15,00,000. Alpha's equity shareholders require a return of 20%. What is the average cost of capital of alpha under the Net Income approach?
13. Define the term dividend and what are its types?
14. What are the advantages of privatization?
15. What is tradeoff theory of capital structure?
16. Explain the procedure to go for public issue.
17. The following data are available for a company:
EPS – Rs. 10, ROI = 20%, rate of return required by shareholders – 16%. If the Gordon valuation model holds, what will be the price per share when the dividend payout ratio is 25% or 50%?

SECTION – C

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

18. Evaluate and select the best one using NPV method.

Particulars	Project-A	Project-B
Investment	80000	100000
Life	4 years	5 years
Earnings before depreciation and tax		
1	24000	28000
2	28000	32000
3	32000	36000
4	44000	44000
5		4000
Cost of capital-10% and tax rate=50%		

19. Explain Walter model of Dividends with empirical evidence.

20. What are the criticisms against the MM Hypothesis?

21. The following information is available for Avinash metals.

Net operating income – Rs. 40 lakhs

Interest on debt – Rs. 10 lakhs

Cost of equity – 18%

Cost of debt – 12%

- What is the average cost of capital of Avinash?
- What happens to the average cost of capital of Avinash, if it employs 100lakhs of debt to finance a project which earns an operating income of Re. 20 lakh?
Assume that the NOI method applies and there are no taxes.
