

M.Com 3rd Semester Examination, 2019

FUNDAMENTALS OF FINANCE

PAPER –COM-304(CBCS)

Full Marks : 50

Time : 3 hours

Answer all questions

The figures in the right hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

UNIT—I

1. Answer any *two* of the following : 2 × 2

(a) Explain the importance of time value of money with regard to investment decisions.

(b) What is cost of capital ?

- (c) Why is the cost of equity maximum ?
- (d) Write the name of two long-term sources of finance.

2. Answer any *two* of the following : 4 × 2

- (a) Mr. Badal invests in an investment scheme. He deposits annually Rs. 10,000 five times starting from today. How much will he get back at the end of the fourth year, if the compound rate of interest is 7% per annum ?
- (b) Wealth maximization and not profit maximization should be the objective of financial management. Explain.
- (c) Mrs. Kalpana deposits Rs. 1,00,000 today and the investment scheme mentions that she will get back Rs. 30,000 in five consecutive years starting from the first date of the fourth year. You are required to suggest whether the scheme is a good one assuming the cost of capital is 10%. Show necessary computations.

(d) XY Ltd. has the following capital structure :

Equity share capital (of Rs. 100 each)	Rs. 2,00,000
11% Preference share capital (of Rs. 100 each)	Rs. 3,50,000
10% Debentures (of Rs. 100 each)	Rs. 1,50,000

Calculate the financial leverage if EBIT is
(i) Rs. 1,00,000 and (ii) Rs. 80,000.
Assume the tax rate to be 30%.

3. Answer any *one* of the following : 8 × 1

(a) (i) Calculate operating leverage from the following data under situations I and II. The installed capacity in the firm is 4,000 units. The actual production and sales is 77 per cent of the capacity. The selling price is Rs. 32 per unit and the variable cost is Rs. 15 per unit. The

fixed operating cost under the two situations is Rs. 16,000 and Rs. 19,000 respectively. Interpret the result so obtained.

(ii) Write a short note on any one source of short-term finance. 5 + 3

(b) (i) A company is contemplating to raise additional fund of Rs. 20,00,000 for setting up a project. The Company expects EBIT of Rs, 8,00,000 from the project. The following three alternative plans are available :

(a) To raise Rs. 20,00,000 by way of equity share of Rs. 10 each

(b) To raise Rs. 10,00,000 by way of equity shares and Rs. 10,00,000 by way of debt @ 10% and

(c) To raise Rs. 6,00,000 by way of equity and rest Rs. 14,00,000 by way of preferences shares @ 14%.

If the tax rate is 30% , which option is the best ?

- (ii) What is weighted average cost of capital (WACC)? Explain the different bases for determining weight in computing WACC. 4 + (2 + 2)

UNIT-II

4. Answer any *two* questions : 2 × 2
- (a) What is the objective of working capital management? 2
- (b) What are the factors to be considered for ordering optimum raw material quantity? 2
- (c) Mention four techniques for capital Budgeting decision. Which one do you prefer most and why? 1 + 1
- (d) How liquidity of a company affects its divided decisions? 2
5. Answer any *two* questions from the following : 4 × 2
- (a) Discuss in brief four factors of ascertaining *working capital of a company*.

- (b) Discuss the concept of operating cycle with illustration. What is its significance ?
- (c) How credit sales affect profitability ?
- (d) (i) What is Profitability Index ?
- (ii) Select which project between Project A and Project B should one choose :

	Project A	Project B
Initial Investment	Rs. 32,00,000	Rs. 37,50,000
Present Value of cash inflow	Rs. 37,30,500	Rs. 43,56,000
Total of yearly cash inflow	Rs. 55,00,000	Rs. 65,00,000
Effective Life of project	10	12

6. Answer any *one* question from the following : 8×1
- (a) From the following information of the business unit in Midnapur, find out (i) Total Current Asset (ii) Total Current Liability

(iii) Current Ratio (iv) Net Working capital Requirement (v) Change in working capital from the following information and (vi) Comment on its working capital management.

1 + 1 + 1 + 2 + 1 + 2

Particular	2019 (in '000 Rs.)	2020(Forecasted) (in'000 Rs.)
Capital	5,00,000	5,00,000
Net Profit during the year	70,000	90,000
Short term Investment (91 days)	12,000	14,000
Long term Investment	2,00,000	2,50,000
Short term Bank Loan for Working Capital	25,000	13,000
Cash Balance	5,000	4,000
Bank Balance	7,000	5,000
Creditors	55,000	60,000
Debtors	80,000	75,000
Fixed Assets	2,00,000	1,80,000
Expenses outstanding	5,000	Nil
Prepaid expenses	3,000	3,000
Stock of finished goods	80,000	80,000
Stock of raw materials	70,000	77,000
Stock of work-in-Progress	40,000	45,000

(b) (I) What are the assumptions of Walter Model of Dividend Decision ?

(II) Following are the information of ABC Private Limited :

(i) No. of shares of ABC Limited
5,00,000

(ii) Profit after tax : Rs. 30,00,000

(iii) Dividend payout ratio (I) 30 %
(II) 60%

(iv) Rate of return 15%

(v) Cost of Capital 10% .

Determine the share price and value of ABC Pvt. Ltd. Company in the above two cases of dividend payout ratio according to Walter Model. Which dividend payout ratio is recommended for the company and why ?

2 + 4 + 2

[*Internal Assessment* – 10 Marks]