 PG/IIIS/COM/304.1 & 304.2/23
(CBCS)(Old)

M.Com. 3rd Semester Examination, 2023

COMMERCE

(*Fundamentals of Finance*)

PAPER – COM-304(CBCS)(Old)

Full Marks : 50

Time : 2 hours

The figures in the right hand margin indicate marks

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

COM-304.1

1. Answer any *two* questions from the following: 2×2

(*a*) What is the relationship between Degree of Operating Leverage and Margin of Safety ? Explain the relationship.

(*Turn Over*)

(*b*) How is total leverage obtained from operating leverage and financial leverage ?

(*c*) How is present value of Re1 to be received at the end of year 2, computed ? Are discount rate and interest rate same ?

(*d*) Compare cash credit and bank overdraft.

2. Answer any *two* questions from the following : 4×2

(*a*) Prove, for a company which does not use preference share capital in its capital structure, that Degree of Financial Leverage is Earnings before Tax divided by Earnings before Interest and Tax.

(*b*) Is the cost of reserve zero ? Explain your answer.

(*c*) A redeemable debenture has a maturity of years, 'T' stands for corporate tax rate and 't' stands for time. Give a model for determining the after-tax cost of debt (K_d).

(*d*) Discuss the scope of financial management.

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

(*a*) Evaluate Shareholders' Wealth Maximization as an objective of Financial management.

(*b*) Discuss in brief the different long-term sources of finance to a firm.

COM-304.2

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

(*a*) What is capital budgeting ?

(*b*) Distinguish between Gross Working Capital and Net Working Capital.

(*c*) What do you understand by dividend policy ?

(*d*) What is sundry debtor ?

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

(*a*) What is the net present value (NPV) of a project ? Do you think that the NPV method of capital budgeting is a rational method of project selection ?

(*b*) What do you understand by Economic Order Quantity (EOQ) ? What are the different types of costs associated with EOQ ?

(*c*) State the features of capital budgeting decision.

(*d*) What are the assumption of Walter model ?

6. Answer any *one* from the following : 8×1

(*a*) (*i*) What do you mean by operating cycle ? Illustrate with the help of a diagram.

(*ii*) Determine total current assets and net working capital of a business from the following information :

I.	Stock :	
	Raw materials	₹ 20 lac
	W-I-P	₹ 10 lac
	Finished stock	₹ 5 lac
II.	Debtors	₹ 15 lac
III.	Cash in hand	₹ 0.50 lac
IV.	Cash at Bank	₹ 1.50 lac
V.	Creditors	₹ 4 lac
VI.	Salary outstanding	₹ 2 lac
VII.	Short-term loan	₹ 1 lac
VIII.	Long-term Bank loan	₹ 3 lac
IX.	Net profit	₹ 6 lac
X.	Machinery	₹ 12 lac

(*b*) Mr. Roy is considering one project in which the required initial investment is Rs. 16,00,000. The project has an estimated life of 5 years. The projected net cash inflows for 5 years are as follows :

Year	Project net cash inflows(Rs)
1	4,00,000
2	6,00,000
3	5,00,000
4	4,00,000
5	5,00,000

The cost of capital of Mr. Roy is 10%. Calculate the net present value (NPV) of the project and state whether it is acceptable.

P.V. of Re1 at 10% rate :

yr - 1	yr - 2	yr - 3	yr - 4	yr - 5
0.909	0.826	0.751	0.683	0.621

[*Internal Assessment* – **10 Marks**]