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PG/III/COM-304/18(CBCS)

M.Com. 3rd Semester Examination, 2018

COMMERCE

(Fundamental Finance)

PAPER —COM-304

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

UNIT — I

- I. Answer any two of the following : 5 × 2**
- (a) Briefly discuss the concept of operating leverage and financial leverage. 5**
- (b) Briefly discuss the three basic functions of financial management. 5**

(Turn Over)

(c) Distinguish between : 5

(i) Specific cost of capital and overall cost of capital.

(ii) Explicit cost of capital and Implicit cost of capital.

(d) (i) You have borrowed Rs.85,000 from your brother and you have promised to pay her Rs.1,12,000 after 3 years. With annual compounding, find the implied rate of interest for this loan.

(ii) A bank account pays 7% annual interest compounded annually. How long will it take for the money to double ? $2\frac{1}{2} + 2\frac{1}{2}$

2. Answer any *one* of the following : 10×1

(a) (i) Why do you consider 'leasing' a type of financing ?

(ii) Discuss the guidelines issued by the Reserve Bank of India for issuance of Commercial Paper. $3 + 7$

(b) The following particulars relate to Shreeji Ltd. at the end of 2017 :

(i) ₹ 5,00,000 Equity shares of ₹10 each. Present dividend per share is ₹15; market price ₹100 per share and growth rate in dividend is 5%.

(ii) Retained earnings - ₹2,00,000.

(iii) 8% ₹5,00,000 preference shares of ₹50 each issued at a discount of 5%.

(iv) Debentures of ₹1,000 each, repayable at par in 2023, were issued as follows :

Type A : 200 A debentures of 13% (interest) issued at a discount of 10%.

Type B : 100 B Debentures of 13.5% issued at a premium of 10%.

(v) 11% term loan of ₹ 5,00,000. Shreeji Ltd. received the entire proceeds of the

loan. Assume that Shreeji Ltd. is in 50% tax bracket and that it uses book values as weights, calculate the overall cost of capital of Shreeji Ltd. 10

UNIT – II

3. Answer any *two* of the following : 5 × 2
- (a) What is economic order quantity (EOQ) ?
Find out EOQ from the following information :
Annual demand : 50000 units
Ordering cost per order Rs.4,000
Material cost per unit : Rs.250
Cost of carrying per unit per year : 10% 2 + 3
- (b) What are the factors that determine dividend policy of a company ? 5
- (c) Define payback period. You are required to choose any one of the two projects on the basis of the payback period criterion.

Year	Cashflow	
	Project A (Rs.)	Project B
0	-4,00,000	-6,00,000
1	+1,80,000	+2,60,000
2	+2,10,000	+2,95,000
3	+1,20,000	+2,30,000
4	+1,50,000	+2,25,000

1 + 4

(d) Cite and explain any four cases where NPV and IRR can give contradictory results. 5

4. Answer any *one* of the following : 10 × 1

(a) (i) Determine the changes in working capital over the last year from the following information.

Particulars	2016(Rs.)	2017(Rs.)
Capital	5,00,000	5,00,000
Creditors	55,000	38,500
Debtors	80,000	55,875

Particulars	2016(Rs.)	2017(Rs.)
Fixed assets	2,00,000	2,50,000
Expenses outstanding	8,900	11,110
Prepaid expenses	5,250	3,750
Stock of work-in-progress	15,500	18,900
Stock of raw materials	32,800	26,300
Stock of finished goods	65,000	50,500
Cash balance	25,900	39,200
Bank balance	29,250	42,500
Short term investment (one year duration)	50,000	55,000
Long-term investment	10,000	12,000

(ii) How does seasonality and nature of business affect working capital requirement ?

6 + 4

(b) (i) Write a short note in the importance of capital budgeting decisions.

(7)

(ii) The details of estimated cash flows for project A is given below.

Year	1	2	3	4
Cash flow	2,00,000	2,50,000	3,50,000	4,15,000

If the initial investment is Rs.3,80,000 and cost of capital is 12%, calculate the internal rate of return.

4 + 6

[*Internal Assessment* : 10 Marks]
