

M.Com. 3rd Semester Examination, 2022

COMMERCE

(Fundamental of Finance)

PAPER – COM-304(CBCS)

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 of the following questions : 2×2
- (a) What is annuity ?
 - (b) Explain time value of money.
 - (c) What is financial leverage ?
 - (d) What is capital structure ?

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

(a) Mr. Amarnath invests Rs. 50,000 annually starting from today. He makes five such payments. However, as per the terms of the deposit, the amount can be withdrawn only after seven years from the starting date. If the rate of interest is 6% compounded annually, determine the maturity amount.

(b) From the following information given by XY Ltd., compute operating leverage.

Installed capacity : 5000 units

Capacity in use : 60%

Sales (in units) : 3000

Selling price per unit : Rs. 500

Variable cost per units : Rs. 280

Fixed cost : Rs. 2,50,000

Interest on SBI loan Rs. 40,000

Tax rate : 30%.

Will your answer change if the fixed cost is increased to Rs. 3,20,000 ? Show necessary computations.

(c) Write a note on trade credit.

(d) (i) YZ Ltd. had issued 9% debentures of Rs. 1,00,000 at a discount of 8%. If the floatation cost is 3% and the tax rate is 30%, compute the after-tax cost of debt.

(ii) What is cost of capital ?

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

(a) (i) The following is the capital structure of PQ Ltd.

Sources of funds	Book value (Rs.)	Before tax cost of capital (%)
Equity	12,00,000	14
Debentures	3,00,000	12
Loan from Bank	9,00,000	11

You are required to compute the weighted average cost of capital using book value as weight (Assume tax rate as 30%).

(ii) Explain the significance of cost of capital. 5 + 3

(b)(i) The sales of a particular company during the last five years is given below :

Year	Sales (Rs.)
2018	4,00,000
2019	5,00,000
2020	6,00,000
2021	6,30,000
2022	7,50,000

You are required to compute the average growth rate using geometric mean method.

(ii) Rs, 5000 is invested in a scheme that offers 10 % annual rate of interest. If the scheme offers semi-annual compounding, what will be the maturity after two years? Will you prefer to invest in another scheme that offers 8% rate of interest but where the compounding takes place every quarter? 4 + (2 + 2)

COM-304.2

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

(a) What are the components of operating cycle of working capital ?

(b) What is the objective of dividend policy ?

(c) What is payback period in capital budgeting ?

(d) What is aggressive approach of financing working capital ?

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

(a) Find out (I) Share price and (II) Value of the company from the following information using Walter model of dividend policy :

(i) Number of shares : 50,00,000

(ii) Profit after tax : 25,00,000

(iii) Dividend payout ratio : 30 %

(iv) Cost of capital	: 12%	
(v) Rate of return	: 20%	1 + 3

(b) Determine (I) Current Assets (II) Net Working Capital from the following balance sheet items :

(i) Equity Share Capital	: 8,00,000
(ii) Profit and Loss Account	: 1,75,000
(iii) Rent outstanding	: 6,500
(iv) Expenses outstanding	: 4,500
(v) Dues towards suppliers	: 32,000
(vi) Machinery	: 3,50,000
(vii) Long term investment	: 2,50,000
(viii) Stock :	
– Raw materials	: 12,000
– Work-in-progress	: 6,500
– Finished Goods	: 15,000
(ix) Dues from customers	: 38,000
(x) Cash in hand	: 7,500
(xi) Cash at Bank	: 80,000

2 + 2

(c) Mention and discuss two factors of dividend decisions. 4

(d) What is profitability index ? Mention advantages and disadvantages of this method. 1 + 3

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

(a) (i) Mention an important difference between net present value method and internal rate of return method of capital budgeting.

(ii) There are two projects available to be undertaken. The initial investment of the both the project is 4,00,000. Determine Net Present Value of both the projects and choose the better on :

Year	Project X	Project Y
1	2,00,000	3,50,000
2	3,50,000	4,00,000
3	4,00,000	3,20,000
4	3,20,000	3,00,000
5	3,00,000	2,00,000

You may consider discounting rate @ 8%.
You may consider present value of 1 after
1st year, 2nd year, 3rd year, 4th year and 5th
year as 0.926, 0.857, 0.794, 0.735, 0.681
respectively. 2 + 6

(b) Mention four determinants of working
capital requirement of a company. 8

[*Internal Assessment* – 10 Marks]
