M.Com. 2nd Semester Examination, 2023

COMMERCE

(*Fundamentals of Finance*)

PAPER — COM-204(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

PAPER — COM 204.1

[*Marks* : 20]

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

   (a) What do you mean by finance function of a firm ?

   (b) A company sold 10000 units of product P at *a selling* price of Rs. 110 per unit. The variable

cost per unit is Rs. 50. The fixed operational cost amounts to Rs. 4,00,000. If the company has taken a loan of Rs. 4,00,000 at 11% interest, compute the operating, financial and combined leverage.

(c) Mention the short-term sources of finance to a company.

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

(a) Elucidate the Shareholders' Wealth Maximization concept to the objectives of Financial Management.

(b) A firm has the following capital structure—

Source of funds	Book value (Rs.)	Market value (Rs.)	Before tax cost of capital
Debt	15,00,000	18,00,000	10%
Preference share	15,00,000	21,00,000	12%
Equity share	20,00,000	21,00,000	14%

You are required to compute the weighted average cost of capital using :-

- Book value as the weight, and

- Market value as the weight

Assume tax rate to be 30%.

PAPER — COM 204.2

[*Marks* : 20]

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

   (*a*) Briefly write any three factors that determine dividend policy of a firm.

   (*b*) Briefly explain Walter's Dividend policy.

   (*c*) What is net present value (NPV) of a project ? Do you think that NPV method is a rational method for project selection ? Justify. 1 + 4

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

   (*a*) (*i*) Write the net working capital concept

   (*ii*) Briefly explain any two factors that determine the working capital requirement in a manufacturing firm.

(*iii*) Write any two criteria of a good inventory management policy.

(*iv*) From the following information, you are required to calculate Maximum Level, Minimum Level and Re-ordering Level of material M.

Normal usage per week	150 units
Re-ordering quantity	900 units
Maximum usage per week	225 units
Minimum usage per week	75 units
Re-ordering period (weeks)	12 to 18

2 + 3 + 2 + 3

(*b*) ABC Co. had one machine that was purchased 3 years back at Rs. 8,00,000/-. The effective life of the machine was estimated as eight years with no salvage value at the end. Presently the company is considering to replace the old machine with a new one. The price of the new machine is Rs. 19,00,000/-. Transportation and installation cost is estimated as Rs. 1,00,000/-. If the machine is replaced, the vendor of the new machine has agreed to

buy back the old one at its book value. The new machine, if installed, will increase the earnings of the company of Rs. 4,50,000/- per annum, in terms of profit before depreciation and taxes(PBDT). The new machine will have an effective life of five years with a salvage value of Rs. 1,00,000/- at the end of its life. It will be depreciated on straight line basis. If the old machine is replaced, then the company will require an additional working capital of Rs. 1, 50,000/- for its extended operations.

If the cost of capital (k) of the firm is 10%, and the corporate tax rate is 25%, then evaluate whether the old machine would be replaced. 10

[*Internal Assessment* — **10 Marks**]

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