2024

M.Com. 2nd Semester Examination

Commerce

PAPER : COM-204 (CBCS)

(Fundamentals of Finance)

Full Marks : 40

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.

Illustrate the answers wherever necessary.

PAPER : COM-204.1

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

(a) Which are the operationally classified functions of finance? Discuss. 5

(b) (i) What is cost of capital?

(ii) Why do different sources of finance have different cost of capital? 2+3 *(c)* *(i)* *ABC* Ltd. issues 10% irredeemable debentures of ₹ 10,00,000, face value of each debenture being ₹ 100. Calculate the cost of capital for debenture if 2% of the par value of debentures is incurred as floatation cost and 30% is the marginal tax rate.

(ii) Explain any one short-term source of finance. 3+2

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

(a) *(i)* Explain the concepts of operating leverage and financial leverage. How are they computed?

(ii) If the operating leverage is 1·56 and financial leverage is 2·5, compute combined leverage. (4+4)+2

(b) *(i)* What do you mean by 'time value of money'?

(ii) How is it taken care of by the Shareholder's Wealth Maximization concept to explain the objectives of Financial Management? Discuss. 4+6

PAPER : COM–204.2

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

(a) Define Gross and Net concept in working capital.

(b) The key argument of Walter's model is that a firm could have an optimum dividend policy. Briefly explain.

(c) *PQR* Ltd. has currently 25 lakhs outstanding shares of ₹ 100 each. At the end of the year, the company wants to declare dividend payment at the rate of ₹ 5 per share. The capitalization rate for the risk class to which the firm belongs is 10%. It expects to have a net income of ₹ 2,50,00,000 and has a proposal for making new investment of ₹ 5 crores.

Show that under MM assumptions, the payment of dividends does not affect the value of the firm.

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

(a) From the following information, estimate the net working capital required for the project :

Estimated cost per unit of production	*Amount per unit* ₹
Raw Materials	80
Direct Labour	40
Overhead	70
Total cost	190

Additional Information :

Selling price	₹ 230 per unit
Level of activity	104000 units of production per annum
Raw material in stock	average 6 weeks
Work in-progress	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by supplier	average 4 weeks
Credit allowed to debtors	average 6 weeks
Lag in payment of wages	average 2 weeks
Lag in payment of overhead	average 1 week

Cash at bank is expected to be ₹ 50,000

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overhead accrue evenly.

(b) Mr. Priotosh, a road contractor, wants a bulldozer for his construction work for a period of two years. He may either purchase the bulldozer or may take it on a lease. The current price of the bulldozer is ₹ 35 lakhs. If it is purchased, then the contractor will use it for two years and then sell it at 80% of its original price. The bulldozer is to be depreciated @ 15% per annum on diminishing balance method. In case of purchase, the contractor can pay ₹ 5,00,000 from his own source and the balance would be financed by a bank loan at 9% per annum. The interest is to be payable at the end of each year and the principal can be paid at the end of second year from the sales proceed of the bulldozer.

On contrary, if the bulldozer is taken on lease, then a lease rent of ₹ 6,00,000 per year is payable at the beginning of each year.

Assume that the marginal tax rate of the contractor is 30% and the cost of capital on such investment is 12%. Advice Mr. Priotosh, whether he should buy the bulldozer or take it on lease.

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