

2022

**M. Com.**  
**3<sup>rd</sup> Semester Examination**  
**FUNDAMENTALS OF FINANCE**  
**PAPER: C- COM 304**

*Full Marks: 50*

*Time: 2 Hours*

*The figures in the right-hand margin indicate full marks.*  
*Candidates are required to give their answers in their own words as far as practicable.*

**UNIT – I**

**1. Answer any two questions:**

**2 X 2**

- a) State two points of distinction between equity share and preference share
- b) State two differences between profit maximization and wealth maximization of a firm.
- c) What do you mean by degree of operating leverage?
- d) An investor invests Rs. 8,000 at 10% interest rate compounded annually for 5 years. Find out the amount he would receive after 5 years.

**2. Answer any two questions:**

**2 X 4**

- a) Give an idea of the weighted average cost of capital.
- b) The current market price of an equity share of Rs.10 each is Rs.40. The current dividend per share is Rs.6. If the dividend is expected to grow at the rate of 5%, find out the cost of equity capital.
- c) Distinguish between profit maximization goal and wealth maximization goal.
- d) Tata Steel Ltd. has issued 30,000, 10% irredeemable debentures of Rs. 100 each. The cost of flotation of debentures is 2% of the total issued amount. The company's taxation rate is 40%. Calculate the cost of debt, when debentures are issued at par.

3. Answer any one question: 1 X 8

- a) Explain briefly the different sources of long-term financing.  
b) A company produces and sells 10,000 shirts. The selling price per shirt is Rs. 500, variable cost is Rs. 200 per shirt, and fixed operating cost is Rs. 25, 00,000.
- (i) Calculate operating leverage?  
(ii) If sales are up by 10%, then compute the impacts on EBIT?

4+4

*UNIT – II*

4. Answer any two questions: 2 X 2

- a) From the following, calculate Profitability Index.  
P.V of cash Inflows Rs 52328, P.V of cash outflows Rs. 51329.  
b) What do you mean by operating cycle?  
c) What is economic ordering quantity?  
d) What is Capital Budgeting?

5. Answer any two questions: 2 X 4

- a) From the following calculate net working capital:  
Sundry Debtors Rs. 45960, Sundry Creditors Rs. 44320,  
Stock in trade Rs. 60930, Cash in hand Rs 32500, Cash at bank Rs 33520, Bank overdraft Rs. 12000, Outstanding expenses Rs. 10500.  
b) State the factors to be considered before taking a dividend decision.  
c) Explain the importance of working capital in terms of liquidity and the short-term solvency position of a firm.  
d) Write a short note on “Internal Rate of Return Method” of Capital Budgeting.

6. Answer any one question: 1 X 8

- a) From the following information, calculate the net present value (NPV) of the two projects and suggest which of the two projects should be accepted at 10% discount rate of the two projects.

	Project X	Project Y
Initial Investment	Rs. 20000	Rs. 30000
Estimated Life	5 Years	5Years
Scrap Value	Rs. 1000	Rs. 2000

The profit before depreciation and after taxation (cash flows) is as follows

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X (Rs.)	5000	10000	10000	3000	2000
Project Y (Rs.)	20000	10000	5000	3000	2000

The following are the present value factors @ 10% p.a.

Year	1	2	3	4	5	6
Factor	0.909	0.826	0.751	0.683	0.621	0.564

- b) J Ltd. a large scale consumer retailer is requesting you to forecast their working capital requirement from the following information:

Projected annual sales Rs. 13000000

Percentage of net profit: 25% (on cost of sales)

Average credit period allowed to debtors: 10 weeks

Average credit period allowed by creditors: 4 weeks

Average stock carrying (in terms of sales requirement): 8 weeks

Add 10% for contingencies.

*(Internal Assessment: 10 marks)*