Roll No: ________

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Post-Graduate Department of Commerce

PGDFT, Semester-II, Semester End Examination, May 2023

Paper Code: DFTO 211 – Capital Investment and Financing Decisions

Duration: 3 Hours **Max Marks: 60**

Instructions:

1. *This paper consists of NINE questions carrying **Equal marks**.*
2. *Question No.1 consists of **5 Compulsory** questions of **2 marks each**.*
3. ***Answer any FIVE** questions from question 2,3,4,5,6,7,8 and 9.*
4. ***Each** question carries **10 marks**. Figures to the **right** indicate marks.*

Q.1. Answer the following **(5*2 each) (10)**

a) Which are the two main types of shares a company can issue to its shareholders? Explain in few words the features of both the types of Shares

b) How are the Investment Decisions classified? Which are the various methods of evaluating the Investment Decisions?

c) Which are the two types of Capital Markets? Explain both of them in few words

d) Define leasing arrangement? Explain in few words the different types of leases.

e) Define Business Plan in Venture Capital Funding? Explain the Essential Elements of a Business Plan in few words.

Q.2. A. Define Financial Analysis and the Standards of Comparison **(3)**

B. Solve the below problem on Ratio Analysis: **(7)**

Amounts in Rupees

Particulars	**Year 1**		**Year 2**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Stock	10,000	---	20,000	---
Debtors	30,000	---	30,000	---

Payment in Adv.	2,000	---	---	
Cash in hand	20,000	---	15,000	---
Sundry Creditors	---	25,000	---	30,000
Acceptances	---	15,000	---	12,000
Bank Overdraft	---	---	---	5,000
Total	**62,000**	**40,000**	**65,000**	**47,000**

Sales amounted to Rs. 3,50,000/- in the first year and Rs. 3,00,000 in the second year.

You are required to compute the following ration for year 1 and year 2

1. Current Ratio
2. Liquid Ratio
3. Inventory Turnover Ratio
4. Average Collection Period
5. Debt Equity Ratio

Q.3. A. Define Cash Budget? What are the functions of the Cash Budget **(2)**

B. On the basis of the following information, prepare a cash budget for the forecast months from Jan 2014 to June 2014: **(8)**

1. Prices and costs are assumed to remain unchanged.
2. Credit sales are 75 per cent of total sales.
3. The 60 percent of credit sales are collected after one month, 30 per cent after two months and 10 per cent after three months.
4. Actual and forecast sales are as follows:

   Actual

   Oct. 2013 Rs. 120,000, Nov. 2013 Rs. 140,000, Dec. 2013 Rs. 160,000

   Forecast

   Jan 2014 Rs. 60,000, Feb 2014 Rs. 80,000, Mar 2014 Rs. 80,000, Apr. 2014 Rs. 120,000, May 2014 Rs. 100,000, June 2014 Rs. 80,000 July 2014 Rs. 120,000
5. 80% of each month are purchased and paid in the preceding month.
6. The anticipated operating expenses are as below:

   Jan 2014 Rs. 12,000, Feb 2014 Rs. 16,000, Mar 2014 Rs. 20,000

   Apr 2014 Rs. 14,000, May 2014 Rs. 16,000, June 2014 Rs. 14,000
7. Interest on debentures, Rs. 3,000/- is due in March and June.
8. An advance tax of Rs. 20,000/- is due in April.

9. A purchase of equipment of Rs. 12,000/- is to be made in June.
10. Rent is Rs. 800 per month.
11. The company has a cash balance of Rs. 40,000/- at 31st December 2013

Q.4. A. Define Working Capital? How is it related to Funds Flow Statement? (4)

B. From the following Balance Sheets of X Ltd. make out: (6)

(i) Statement of Changes in Working Capital

(ii) Funds Flow Statement

Balance Sheets

Liabilities	2003 (Rs.)	2004 (Rs.)	Assets	2003 (Rs.)	2004 (Rs.)
Equity Sh. Cap	3,00,000	4,00,000	Goodwill	1,15,000	90,000
Red. Pref. Sh. Cap	1,50,000	1,00,000	Land & Buildings	2,00,000	1,70,000
General Reserve	40,000	70,000	Plant	80,000	2,00,000
Profit & Loss Acc	30,000	48,000	Debtors	1,60,000	2,00,000
Prop. Dividend	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills Payable	20,000	16,000	Cash in Hand	15,000	10,000
Prov. For Taxation	40,000	50,000	Cash at Bank	10,000	8,000
Total	6,77,000	8,17,000	Total	6,77,000	8,17,000

Additional Information:

1. Depreciation of Rs. 10,000/- and Rs. 20,000/- have been charged on Plant and Land & Buildings respectively in 2004.
2. A dividend of Rs. 20,000/- has been paid in 2004
3. Income Tax of Rs. 35,000/- has been paid during 2004.

Q.5. A. Define Net Present Value method of evaluating the Investment proposals and the steps involved in the calculation of NPV. (2)

B. Amal needs Rs. 1,000 now, and will pay you back Rs. 1,350 in a year. Is that a good investment when you can get at 10% per year? (2)

C. Invest Rs.20,000 now and receive 3 yearly payments of Rs.5,000 each, plus Rs.12,000 in the 3rd year. Use 10% discount Rate. Find NPV (3)

D. A project with a 3-year life and a cost of Rs. 100,000 generates revenue of Rs. 25,000 in year 1, Rs. 45,000 in year 2, and Rs. 65,000 in year 3. If the discount rate is 8%, what is the NPV of the project? **(3)**

Q.6. A. Define Internal Rate of Return method of evaluating the Investment proposals and list out some of the merits for IRR method. **(2)**

B. Find the IRR of an investment having initial cash outflow of Rs. 280,000. The cash inflows at first, second, third and fourth years are expected to be Rs. 72,000, Rs. 97,000, Rs.105,000 and Rs, 110,000 respectively. **(4)**

C. Mr. Amila is considering to invest Rs. 350,000 in a Hardware business. **(4)**
The cash inflows during the first, second and third years are expected to be Rs. 25,000, Rs. 150,000 and Rs, 170,000 respectively.
Cost of capital is 11%
Calculate the IRR for the proposed investment and interpret your answer.

Q.7. A. Whats is the difference between Leasing and Hire Purchase arrangements? **(2)**
Explain in both difference in columnar form

B. A Limited company is contemplating to have an access to a machine for a period of 5 years. The company can have the use of machine for the stipulated period through leasing arrangement or the requisite amount can be borrowed at 14% to buy the machine. The firm is in the 50% tax bracket. **(8)**
In the case of **leasing**, the firm would be required to pay at the end-of-year lease rent of Rs.1,20,000 for 5 years. All maintenance, insurance and other costs are to be borne by the lessee.
In the case of **purchase** of the machine (which costs Rs.3,43,300), the firm would have 14% five-year loan to be paid in 5 equal annual instalments, each instalment becoming due at the end of each year. The machine would be depreciated on a straight-line basis, with no salvage value.
Advise the company which option it should go for, assuming lease rents are paid (a) at the end of the year (b) in advance.

Q.8. A. Happy Valley Florists Ltd. acquired a delivery van on hire purchase on 01.04.2001 from Ganesh Enterprises. The terms were as follows: **(4)**

Particulars	***Amount (Rs.)***
Hire Purchase Price	Rs. 1,80,000/-
Down Payment	Rs. 30,000/-
1st Installment payable after 1 year	Rs. 50,000/-
2nd Installment payable after 2 years	Rs. 50,000/-
3rd Installment payable after 3 years	Rs. 30,000/-
4th Installment payable after 4 years	Rs. 20,000/-

Cash price of van is Rs. 1,50,000/-. You are required to calculate Total Interest and Interest included in each installment.

B. On January 1, 2001, M/s ABC acquired a pickup van on hire purchase from M/s XYZ. The terms of the contract were as follows: **(6)**

a. The cash price of the van was Rs. 1,00,000/-
b. Rs. 40,000/- were to be paid on signing of the contract
c. The balance was to be paid in annual installments of Rs. 20,000/- plus Interest
d. Interest chargeable on the outstanding balance was 6% pa.
e. Depreciation at 10% pa. is to be written off using the SLM method.

You are required to:

1. Give journal entries and show the relevant accounts in the books of M/s ABC from January 1, 2001 to December 31, 2003. And
2. Show the relevant items in the Balance Sheet of the purchaser as on December 31, 2001 to 2003.

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Q.9. A. Define Financial Leverage? Explain the most commonly used measures of financial leverage (2)

B. DTSL purchased from Maruti Udvog Ltd. a motor van on 1st April 2009 the cash price being Rs 1,64,000. The purchase was on hire purchase basis, Rs 50.000 being paid on the signing of the contract and, thereafter, Rs 50,000 being paid annually on 31st March, for three years, Interest was charged at 15% per annum. Depreciation was written off at the rate of 25 per cent per annum on the reducing instalment system. DTSL closes its books every year on 31st March. Prepare the necessary ledger accounts in the books of DTSL. (4)

C. On 1st April, 2008, Pravin acquired machinery on hire purchase system from ABC Ltd., agreeing to pay four annual instalments of Rs 60,000 each payable at the end of each year. There is no down payment. Interest is charged @ 20% per annum and is included in the annual instalments. Because of financial difficulties, Pravin, after having paid the first and second instalments, could not pay the third yearly instalment due on 31st March, 2011, whereupon the hire vendor repossessed the machinery. Pravin provides depreciation on the Machinery @ 10% per annum according to the written down value method. He closes his books of account every year on 31st March. (4)

*********************Best Wishes*********************