

VidyaVikasMandal's

Shree Damodar College of Commerce & Economics

M. Com (Semester III) Examination, November 2019

Accounting & Finance

CO0311 – Investment and Financing Decisions (OA-18)

Duration: 3 Hours

Total Marks: 60

Instructions: 1) This paper consists of nine questions carrying equal marks.

2) Question 1 consists of 5 compulsory questions of 2 marks each.

3) Answer any 5 questions from question 2, 3, 4, 5, 6, 7, 8 and 9

4) Each question carries 10 marks. Figures to the right indicate marks.

1. Answer the following questions in brief: (5x2=10)

A) Explain the finance functions.

B) Calculate operating leverage for the following two firms from the price and cost data. Assume number of units sold is 5000.

Particulars	Firm A	Firm B
Sale Price per unit	Rs. 20	Rs. 32
Variable cost per unit	Rs. 6	Rs. 16
Fixed Operating cost	Rs. 80,000	Rs.40,000

C) State the various capital budgeting techniques.

D) Write a short note on 'Sensitivity Analysis'.

E) Explain the following terms in brief:

(i) Future Value (ii) Present Value

2. Discuss the goals of Financial Management. 10

3. What is Intrinsic Value? How is it different from Book Value? 10

4. A firm's sales, variable costs and fixed cost amount to Rs. 75,00,000, Rs.42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs. 45,00,000 at 9% and its equity capital totals Rs. 55,00,000.

a) What is the firm's ROI?

b) Does it have favourable financial leverage?

c) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?

d) What are the operating, financial and combined leverages of the firm?

e) If the sales drop to Rs. 50,00,000 what will the new EBIT be? 10

5. Three companies A, B and C are in the same business and hence have similar operating risks. However the capital structure of each of them is different. The following are the details: 10

Particulars	A	B	C
Equity share capital (Rs) (face value Rs. 10 per share)	4,00,000	2,50,000	5,00,000
market value per share (Rs)	15	20	12
dividend per share (Rs)	2.70	4	2.88
debentures (Rs)	NIL	1,00,000	2,50,000
market value per debenture (Rs)		125	80
Interest		10	8

Assume the current levels of dividend are generally expected to continue indefinitely and the income tax rate is 35%. You are required to compute the Weighted Average Cost of Capital of each company. 10

6. Explain the complexities involved in Capital Budgeting Decisions. 10

7. XYZ company is considering the following projects P and Q. The company's cost of capital is 10%. Calculate NPV and IRR of both projects from the following information:

10

Year	0	1	2	3
P (Rs.)	25,000	5,000	5,000	25,640
Q (Rs.)	28,000	12,672	12,672	12,602

8. Write short notes on the following:

10

(i) Risk adjusted discount rate (ii) Types of risk in Capital Budgeting

9. Explain 'Decision Tree Approach' with a suitable example.

10