Vidya Vikas Mandal's
Shree Damodar College of Commerce & Economics, Margao-Goa
Post-Graduate Dept. of Commerce
M.Com (Part-II), Semester –III, Semester End Examination, January 2021
COO 311: Investment and Financing Decisions (0A-18A)

Duration: 2hrs | **Max Marks: 40**

Instruction

1) **Start each question on fresh page.**
2) **Figures to the right indicate maximum marks.**

Q.I Answer the following in 50-80 words each (5x2=10)

1. Outline the functional areas of financial management.
2. Write a short note on 'cost of retained earnings'.
3. Define risk from the capital budgeting point of view.
4. Briefly explain any six features of an appropriate capital structure.
5. A project costs Rs. 20,00,000 and yields annually profit of Rs. 3,00,000 after depreciation at 12.5% but before tax at 50%. Calculate payback period and suggest whether it should be accepted or rejected based on 6 year standard payback period.

QII. Answer ANY 3 of the following in 200-220 words each (03x10=30)

Q.1a. Can there be a conflict between shareholder's and manager's financial goals? How does the Wealth Maximisation objective resolve the same. **05**

b. 'Investment, financing and dividend decisions are all inter-related'. Comment. **05**

Q.2a. What is weighted average cost of capital. Examine the rationale behind the use of weighted average cost of capital. **10**

Q.3 What is decision tree analysis? Explain the steps involved in the construction of a decision tree. **10**

Q.4 The capital structure of Surat Traders Ltd as on 31.3.2018 is as follows:

Particulars	Rs. incrores
Equity capital: 100 lakhs equity shares of Rs. 10 each	10
Reserves	2
14% debentures of Rs. 100 each	3

For the year ended 31.3.2018 the company has paid equity dividend at 20%. As the co is a market leader with a good future, dividend is likely to grow by 5% every year. The equity shares are now traded at Rs. 80 per share in the stock exchange. Income tax rate applicable to the company is 50%.

Required:

a. the current weighted average cost of capital

b. the company has plans to raise a further Rs. 5 crores by way of a long term loan at 16% interest. When this takes place the market value of the equity shares is expected to fall to Rs. 50 per share. What will be the new weighted average cost of capital of the company. **10**

Q.5 Apex Ltd has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for expansion cum modernization plans. The company plans the following financing schemes.

a. All common stock

b. Rs. 1,00,000 in common stock and Rs.2,00,000 in 10% debentures.

c. All debt at 10% p.a.

d. Rs. 1,00,000 in common stock and Rs.2,00,000 in preference capital with the rate of dividend at 8%.

The company's existing earnings before interest and taxes (EBIT) isRs. 1,50,000. The corporate rate of tax is 50%.

You are required to determine the earnings per share (EPS) in each plan and comment on the implications of financial leverage. **10**

Q.6A company is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 and no salvage value. Tax rate is 50%, the company follows straight line method of depreciation. The net earnings before depreciation and tax is as follows:

Year	1	2	3	4	5
EBDT (Rs)	10,000	11,000	14,000	15,000	25,000

Evaluate the project using a) PBP, b) ARR c) NPV @10% d) PI @10% **10**