23PCOCT2008

SHRIMATHI DEVKUNVAR NANALAL BHATT VAISHNAV COLLEGE FOR WOMEN
(AUTONOMOUS)
(Affiliated to the University of Madras and Re-accredited with 'A+' Grade by NAAC)
Chromepet, Chennai - 600 044.
M.Com. - END SEMESTER EXAMINATIONS APRIL - 2024
SEMESTER - II
23PCOCT2008 - Business Finance

Total Duration : 2 Hrs. 30 Mins. Total Marks : 60

Section B

Answer any **SIX** questions $(6 \times 5 = 30$ Marks)

1. Mr.Kamesh has rented out a portion of his house for 4 years at an annual rent of 6000 with the stipulation that rent will increase by 10 percent every year. If the required rate of return is 15%, Show the present value of the expected series of rent? (P.V. Factor at 15% for four years: 0.870, 0.756, 0.658 and 0.572).
2. A Company offers 12 per cent rate of interest on deposits. Compute the effective rate of interest of the compounding is done (i) half yearly (ii) quarterly and (iii) monthly?
3. Enumerate the methods of evaluating Capital Investment proposals.
4. Compute the average rate of return for projects A and B from the following and state which project should be undertaken.

	Project A	**Project B**
Investments	₹20,000	₹30,000
Expected Life (No Salvage value)	4 years	5 years
Projected Net Income (After Interest, Depreciation and Taxes)		
Years	**Project A**	**Project B**
1	₹2,000	₹3,000
2	₹1,500	₹3,000
3	₹1,500	₹2,000
4	₹1,000	₹1,000
5	-	₹1,000
	₹6,000	₹10,000

5. Explain the techniques used to make business decisions under risk and uncertainty.

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6. Due to a considerable risk inherent in a project costing an initial cash outflow of ₹20,000, a firm decides to use certainty equivalents to evaluate the project. The certainty equivalents have been estimated to be 0.8, 0.7, 0.6, 0.5 and 0.4 in a period of 5 years. The risk free rate of interest is 10%. The expected of cash inflows are given below:

Years	**Cash Inflows**	**PV Factor at 10%**
1	₹5,000	0.909
2	₹8,000	0.826
3	₹4,000	0.751
4	₹6,000	0.683
5	₹12,000	0.621

You are required to advice the firm whether its management should accept the project.

7. Describe the factors determining the Working Capital requirements in the business.

8. The annual demand for a product is 6,400 units. The unit cost is ₹6 and the inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is ₹75, determine:
a) Economic order quantity (EOQ)
b) Number of orders per annum and
c) Time between two consecutive orders

Section C

I - Answer any **TWO** questions $(2 \times 10 = 20$ Marks)

9. Explain'Business Finance'. State its Objectives and Scope.

10. The Beta Company Ltd., is considering the purchase of a new investment. Two alternative investments are available (A and B) each costing ₹1,00,000. Cash inflows are expected to be as follows:

Year	**Cash Flows**		**Discount Factor**	
	Investment A	**Investment B**	**at 12%**	**at 18%**
1	₹40,000	₹50,000	0.893	0.847
2	₹35,000	₹40,000	0.797	0.718
3	₹25,000	₹30,000	0.712	0.609
4	₹20,000	₹30,000	0.635	0.516

The company has a target return on capital of 10%. Risk premium rates are 2% and 8% respectively for investments A and B. Which investments should be preferred?

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11. A Company is expecting to have ₹32,000 cash in hand on 1.4.2022 and it requires you to Ascertain the Cash balance by preparing the cash budget for three months. April to June 2022. The following information is supplied to you:

Month	Sales	Purchases	Wages	Expenses
February	₹70,000	₹44,000	₹6,000	₹5,000
March	₹80,000	₹56,000	₹9,000	₹6,000
April	₹96,000	₹60,000	₹9,000	₹7,000
May	₹1,00,000	₹68,000	₹11,000	₹9,000
June	₹1,20,000	₹62,000	₹14,000	₹9,000

Other Information:

a) Period of credits allowed by suppliers is two months.

b) 25% of sales is for cash and the period of credit allowed to customers for credit sales is one month.

c) Delay in payment of wages and expenses one month.

d) Income tax ₹28,000 is to be paid in June 2022.

12. Examine the tools and techniques of Inventory Management.

II - Compulsory question $(1 \times 10 = 10$ Marks)

13. A Company is considering investment in a project that costs ₹2,00,000. The project has an expected life of 5 years and zero salvage value. The company uses straight-line method of depreciation. The company's tax rate is 40%.
The estimated earnings before depreciation and before tax from the project are as follows:

Years	Earnings before Depreciation and Tax	Present value factor at 10%
1	₹70,000	0.909
2	₹80,000	0.826
3	₹1,20,000	0.751
4	₹90,000	0.683
5	₹60,000	0.621

You are required to compute the net present value at 10% and advise the company.

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