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 - NOV'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. Explain the meaning of business finance. List out its objectives.

2. Describe sinking fund deposit factor.

3. Apply Capital Budgeting technique to find the best alternative. Payoff Ltd., is producing articles by manual labour and is considering to replace it by a new machine. There are two alternative models M and N of the new machine. Prepare a statement of profitability showing the pay back period from the following information.

|                                 | Machine M | Machine N |
|---------------------------------|-----------|-----------|
| Estimated Life of machine       | 4 years   | 5 years   |
| Cost of Machine                 | 9,000     | 18,000    |
| Estimated savings in scrap      | 500       | 800       |
| Additional cost of maintenance  | 800       | 1,000     |
| Estimated savings in direct wages | 6,000   | 8,000     |
| Additional cost of supervision  | 1,200     | 1,800     |

Ignore Taxation

4. Compute Net Present Value from the following information. Raja Ltd wants to replace its existing plant. It has received 2 alternative proposals I and II. The cost of these plants Rs.2,50,000. The estimated life is 5 years and 4 years. The company rate of return is 10% The anticipated net inflows after taxes for the two plants are as follows

| Years | Plant I  | Plant II | PVF   |
|-------|----------|----------|-------|
| 1     | 80,000   | 1,10,000 | 0.909 |
| 2     | 60,000   | 90,000   | 0.826 |
| 3     | 60,000   | 85,000   | 0.751 |
| 4     | 60,000   | 35,000   | 0.683 |
| 5     | 1,80,000 | -        | 0.621 |

Which of these alternatives would you recommend for the management.

**Contd...**

5. Show the better project From the following data,

| Project | A | B |
|---------|-------|-------|
| Year | Cash Flows | |
| 0 | -10,000 | -10,000 |
| 1 | 4,000 | 5,000 |
| 2 | 4,000 | 6,000 |
| 3 | 2,000 | 3,000 |

Riskless discount rate is 5%. Project A is less risky as compared to Project B. The management considers risk-premium rate is 5% and 10% respectively appropriate for discounting the cash inflows.

6. Compute the surplus or deficiency of cash from the following data

| | Normal Period | Peak Period |
|---|---|---|
| Desired days of cash | 6 | 4 |
| Average daily cash outflows | 30,000 | 50,000 |
| Actual cash balance | 1,00,000 | 1,20,000 |

7. Compute the average age of receivables

| | Rs. |
|---|---|
| Credit sales for the year | 60,000 |
| Account receivable as on 1.Jan | 7,000 |
| Account receivable as on 31 Dec | 5,000 |

8. Ascertain a. Economic Order Quantity

  b. The total cost of ordering and cost of carrying inventories when 4 orders of equal sizes are placed

A Ltd., requires 2,000 units of a certain item per year. The purchase price per unit is Rs.30. The carrying cost of inventory is 25% of the unit cost and the cost per order is Rs.1,000.

## Section C

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

9. Explain time value of money and its causes.

10. Evaluate the following alternative according to
    a. Pay back period
    b. Return on investment method
    c. Net Present value method(10%)

**Contd...**

| Year | Estimated cash Inflow | | PVF |
| --- | --- | --- | --- |
| | Machine X | Machine Y | |
| 1 | 15,000 | 5,000 | 0.909 |
| 2 | 20,000 | 25,000 | 0.826 |
| 3 | 25,000 | 20,000 | 0.751 |
| 4 | 15,000 | 30,000 | 0.683 |
| 5 | 10,000 | 20,000 | 0.621 |

11. Justify your opinion for the decision suggested to the management.

ABC company Ltd., is attempting to evaluate two mutually exclusive projects A and B. Each project requires a net investment of Rs.10,000 and the annual cash flows from each project is estimated at Rs.2,000 per annum for the next 15 years. The company's cost of capital may be taken at 10%. The management has made the following optimistic, most likely and pessimistic estimates of the annual cash inflows associated with each of these projects.

| | Project A | Project B |
| --- | --- | --- |
| Initial investment | 10,000 | 10,000 |
| Estimated cash inflows per annum | | |
| Pessimistic | 1,500 | - |
| Most likely | 2,000 | 2,000 |
| Optimistic | 2,500 | 4,000 |

12. Determine cash budget from the following for the month of January 2023.

|  | Rs. |
| --- | --- |
| Cash in hand (estimated) on January 1 | 20,000 |
| Sales- December 2022 | 50,000 |
| January 2023 | 80,000 |

80% amount is recovered in the month of sales and the balance is received in the subsequent months.

Purchases for the month of December 2022 and 2023 are estimated to be 20,000 and 30,000 respectively. No credit period is allowed by the suppliers. A sale commission of 5% is paid in cash in the month of sale.

**Contd...**

13. Recommend and Prepare a plan of ABC selective control from the following details

| Item | Units | Unit Cost (Rs.) |
|------|-------|-----------------|
| 1 | 7,000 | 5.00 |
| 2 | 24,000 | 3.00 |
| 3 | 1,500 | 10.00 |
| 4 | 600 | 22.00 |
| 5 | 38,000 | 1.50 |
| 6 | 40,000 | 0.50 |
| 7 | 60,000 | 0.20 |
| 8 | 3,000 | 3.50 |
| 9 | 300 | 8.00 |
| 10 | 29,000 | 0.40 |
| 11 | 11,500 | 7.10 |
| 12 | 4,100 | 6.20 |

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