

Reg. No. : .....

Code No. : 5545

Sub. Code : WKCM 11

M.Com. (CBCS) DECREE EXAMINATION,  
NOVEMBER 2023

First Semester

Commerce – Core

BUSINESS FINANCE

(For those who joined in July 2023 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (15 × 1 = 15 marks)

Answer ALL questions.

Choose the correct answer :

1. Time value of money means
  - (a) money valued time
  - (b) time taken to give money
  - (c) the value of a unit of money is different in different time period
  - (d) current money value

2. Compounding techniques is
- (a) Same as discounting
  - (b) Exactly opposite of discounting
  - (c) Single different from discounting
  - (d) None of these
3. The rule used to calculate doubling period is called
- (a) Rule of 72
  - (b) Rule of doubling
  - (c) Rule of 1959
  - (d) Rule of 1956
4. The risk of incurring capital loss due to the fall in the price of a security is known as
- (a) Income risk
  - (b) Default risk
  - (c) Capital risk
  - (d) None of these
5. Risk of two securities with different expected return can be compared with
- (a) Coefficient of variation
  - (b) Standard deviation of securities
  - (c) Variance of Securities
  - (d) None of the above

6. The point of tangency between risk return indifference curves and efficient frontier highlights
- (a) Optimal portfolio
  - (b) Efficient portfolio
  - (c) Sub-optimal portfolio
  - (d) None of the above
7. Venture Capital is in the form of
- (a) Equity shares only
  - (b) Preference shares only
  - (c) Debt finance only
  - (d) Both equity and debt finance
8. An agreement between whereby the lessor conveys to the lessee, in return for rent, the right to use an asset for an agreed period of time is called
- (a) Rental agreement
  - (b) Lease agreement
  - (c) Factor agreement
  - (d) None or these
9. A Person who conveys to another person called the lessee the right to use an asset Enconsideration of a payment is called a
- (a) Lessor
  - (b) Lessee
  - (c) Factor
  - (d) Landlord



10. Receivables are popularly known as  
 (a) Debtors (b) Creditors  
 (c) Overdraft (d) None of these
11. Inventories is the most significant part of \_\_\_\_\_ assets.  
 (a) Fixed (b) Current  
 (c) Liquid assets (d) Intangible
12. Factoring as a financial service involves purchasing \_\_\_\_\_ of a firm.  
 (a) Receivables (b) Payables  
 (c) Cash (d) Advance payments
13. The simplest capital budgeting techniques is  
 (a) NPV method (b) Pay back method  
 (c) ARR method (d) IRR method
14. The distribution of capital in favor of more acceptable proposal is known as  
 (a) Capital budgeting (b) Capital rationing  
 (c) Capital rising (d) Capitalization
15. The discounting factor at which NPV is zero is  
 (a) accounting rate of return  
 (b) internal rate of return  
 (c) return on investment  
 (d) pay back period

PART B — (5 × 4 = 20 marks)

Answer ALL questions, choosing either (a) or (b).

16. (a) Summarize the objectives of Business finance.

Or

- (b) If you deposit Rs.5,000 today at 6% rate of interest. in how many years will this amount double? Work out this problem by using the Rule of 72 and Rule 6.

17. (a) Explain the criteria for minimize the risk.

Or

- (b) From the following data calculate the expected rate of return:

Economic condition	Rate of return	Probability
Growth	18	0.30
Expansion	12	0.30
Stagnation	1	0.20
Decline	-0.5	0.20



18. (a) A leasing company expects a minimum yield of 10% on its investment in the leasing business. It proposes to lease a machine costing Rs.5,00,000 for ten years. Lease payment will be received in advance. Determine the lease rental to be charged by the Lessor company.

Or

(b) Infer the characteristics of venture capital.

19. (a) Mahindra Ltd. purchases and sells goods entirely on credit basis. The credit period allowed to it by suppliers is 45 days and firm allows 60 days to its customers. However in actual practice, the average age of accounts pays to it is 60 days and the average age of accounts receivables is 70 days. The average age of firm's inventory is 80 days.

Calculate the firm's cash cycle and Determine cash turnover assuming 360 days in a year.

Or

(b) Credit Sales for the year 2018 – Rs.6,00,000  
Accounts receivable as on 1.1.2018 – Rs.7,000  
Accounts receivable as on 31.12.2018 – Rs 5,000  
Calculate the average age of receivables.

Page 6 Code No. : 5545

20. (a) The following particulars are relating to project :

(i) Cost of the project Rs.60,000

(ii) Annual cash inflows :

1<sup>st</sup> year – Rs.6,000,

2<sup>nd</sup> year – Rs. 20,000,

3<sup>rd</sup> year – Rs.40,000,

4<sup>th</sup> year – Rs.40,000 and

5<sup>th</sup> year – Rs.20,000.

(iii) P.V. Factor at 10%;

1<sup>st</sup> year – 0.909,

2<sup>nd</sup> year – 0.826,

3<sup>rd</sup> year – 0.751,

4<sup>th</sup> year – 0.683 and

5<sup>th</sup> year – 0.621

Calculate discounted payback method.

Or

(b) What is capital rationing? Explain its types.

Page 7 Code No. : 5545



PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

21. (a) Explain the discounting techniques of adjusting for time value of money.

Or

(b) Mr. Krishnan invested Rs. 2,00,000 at 12% p.a for two years. What will be the value of investment after two years, if interest is compounded

- (i) half-yearly
- (ii) quarterly
- (iii) monthly

Which is most beneficial to Krishna?

22. (a) A Ltd. choice between three projects X, Y, and Z. The following information has been Estimated :

Market Demand (Profits) Rs. '000

Projects	D1	D2	D3
X	190	50	15
Y	110	200	160
Z	150	140	110

Probabilities are  $D1 = 0.6$ ;  $D2 = 0.2$ ;  $D3 = 0.2$

Which project should be undertaken if decision is made by expected value approach?

Or

(b) The possible outcomes of two securities under different economic conditions are given below.

	Probability	Return %	
		Security X	Security Y
A	0.1	-10	16
B	0.2	12	-5
C	0.4	9	7
D	0.2	7	18
E	0.1	-4	20

Calculate:

- (i) The expected return on individual securities
- (ii) The expected return on a portfolio of X and Y
  - (1) If the proportion of X and Y is 50:50
  - (2) If the proportion of X and Y is 20:80.

23. (a) Explain the different types of lease agreement.

Or

(b) Examine the various sources of startup finance.



24. (a) A firm is considering pushing up its sales by existing credit facilities to the following Categories of customers :

- (i) Customers with a 10% risk of non — payment, and
- (ii) Customers with a 30% risk of non-payment.

The incremental sales expected in case of category

- (1) are Rs. 40,000 while in case of category
- (2) they are Rs.50,000.

The cost of production and selling costs are 60% of sales while the collection costs amount to 5% of sale in case of category (1) and 10% of sales in case of category (2).

You are required to advice the firm about extending credit facilities to each of the above categories of customers.

Or

(b) The following information relating to a type of raw materials is available.

Annual demand	—	2,400 units
Unit price	—	Rs. 2.40
Ordering cost per order	—	Rs. 4.00

Storage cost	—	2% p.a
Interest rate	—	10% p.a
Lead time	—	Half month

Calculate EOQ and total annual inventory cost in respect of the particular raw Material.

25. (a) Explain the various steps involved in Multi National Capital Budgeting.

Or

(b) Rock Fort Steel Ltd whose cost of capital is 10% is considering investing in a project. The following particulars are available.

Initial Investment Rs. 90,000

Cash flows :

Year	1	—	Rs. 10,000
	2	—	Rs. 20,000
	3	—	Rs. 30,000
	4	—	Rs. 40,000
	5	—	<u>Rs. 50,000</u>
			<u>Rs. 1,50,000</u>

Compute :

- (i) N.P.V
- (ii) Profitability index and
- (iii) IRR

Note : P.V Factor at 10% — (0.909, 0.826, 0.751, 0.683, 0.621)

