

G.V.M's
G.G.P.R COLLEGE OF COMMERCE & ECONOMICS
Farmagudi, Ponda- Goa.
M.COM. (SEMESTER III) EXAMINATION, NOVEMBER 2019
COO 311 INVESTMENT AND FINANCING DECISIONS

Duration: 3 Hours

Total Marks: 60

Instructions:

1. This paper consists of nine (9) questions carrying equal marks.
 2. Question No. 1 consists of 5 compulsory questions of 2 marks each.
 3. Answer any five (5) questions from 2, 3, 4, 5, 6, 7, 8, and 9.
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Q.1. Answer the following: (5x2=10)

- a) Explain types of leverages.
- b) Elaborate on Net Operating Income Theory of Capital Structure.
- c) Justify Importance of Capital Budgeting in an organisation.
- d) Explain organisation of Finance Function in a business enterprise.
- e) A project costing Rs. 40,00,000 yield annually a profit of Rs. 6,00,000 after depreciation at 12.5% and is subject to income tax @ 50%. Calculate the Pay Back Period.

Q.2. Explain types of risks involved in Capital Budgeting. (10)

Q.3. "Financial Management is concerned with procurement and use of funds". In this context explain Goals of Financial Management. (10)

Q.4. What is Cost of Capital? Explain how to calculate cost of different sources of Finance. (10)

Q.5. a. The following has been extracted from the liabilities side of the balance sheet of Dell Ltd. As on 31st March 2019.

Paid Up Capital	Amount (Rs.)
Equity Share Capital (Shares of Rs. 10 each)	40,00,000
10% Preference Shares of Rs. 10 each	60,00,000
15% Non-Convertible Debentures	20,00,000
14% Institutional Loan	60,00,000

The shares of the company are trading at Rs.50 per share in the market and the EPS is Rs.7.50 per share. You are required to calculate Weighted Average Cost of Capital using book values as weights and EPS as the basis for Cost of equity. Assume 50% Tax rate. (5)

Q.5. b. A company issues Equity shares of Rs. 100 each at a premium of Rs.10 per share. The company has been paying 15% dividend to equity shareholders and expects to maintain the same in future. Calculate cost of Equity capital. Additionally, show how it will make any difference if market price of equity share is Rs.180 per share? (3)

Q.5. c. Dharma Ltd. Issued 40,000, 10% Preference Shares of Rs.100 each redeemable after 20 years at a premium of 5%, The cost of issue is Rs.4 per share. Calculate cost of Preference Capital. (2)

Q.6. Rashmi Ltd. can make either of the two investments at the beginning of 2020. Assuming required rate of return of 10% p.a. evaluate the investment proposals using the following techniques:

- i. Payback Period Method
- ii. Net Present Value Method
- iii. Discounted Payback Period Method
- iv. Profitability Index

The required particulars are as under:

Particulars	Project A (Rs. In'000)	Project B (Rs. In'000)
Cost of the Investment	20,000	28,000
Life of the project	4 Years	5 Years
Scrap Value	-	-
Net Income After Depreciation and Tax		
2020	500	-
2021	2000	3400
2022	3500	3400
2023	2500	3400
2024	-	3400

Depreciation to be provided on Straight Line Basis. Present Value Factor at 10% are:

Year	1	2	3	4	5
PVF	0.909	0.826	0.751	0.683	0.621

(10)

Q.7. Vrunda Ltd. is considering three financing plans for its investment in a new branch. Total investment required to be raised is Rs.20,00,000. The plan of financing proportion is as follows:

Sources\Plan	A	B	C
Equity Capital	100%	50%	50%
8% Irredeemable Preference Share Capital	-	-	50%
8% Debentures Capital	-	50%	-

The Equity Shares bearing the Face Value of Rs.10 per share will be issued at a premium of Rs.10 per share. The company is currently selling 3,00,000 units at Rs.30 per unit, at a variable cost of Rs.26 per unit. The fixed cost borne by the company is Rs.4,00,000. Determine for each plan and comment on:

- i. Degree of Operating Leverage.
- ii. Degree of Financial Leverage.
- iii. Degree of Combined Leverage.
- iv. Earnings Per Share.

(10)

Q.8.a. Following information on net present value probability distribution is available regarding two mutually exclusive projects to be undertaken by a firm.

Project Meera		Project Neera	
NPV Estimate (Rs.)	Probability	NPV Estimate (Rs.)	Probability
6000	0.2	6000	0.1
12000	0.3	12000	0.4
14000	0.3	14000	0.4
20000	0.2	20000	0.1

You are required to:

- Compute the expected net present value of the projects.
- Compute Standard Deviation of each probability distribution.
- Which project is riskier and why? (5)

Q.8. b. Evaluate the projects using Coefficient Variation Method and suggest which of these two mutually exclusive projects should be accepted by MTR Ltd. (5)

Project X		Project Y	
Probability	Cash Inflow '000	Probability	Cash Inflow '000
0.1	200	0.2	200
0.4	400	0.3	400
0.4	600	0.3	600
0.1	800	0.2	800

Q.9. a. 'The Finance manager trying to achieve optimal capital structure has to determine the minimum overall total risk and maximise the possible return to achieve the objective of higher market value of the firm'. Discuss in this regards Modigliani-Miller Theory of Capital Structure with assumptions. (5)

Q.9. b. Calculate Value of the Firm and Cost of Equity under the Net Operating Income Approach (NOI) using the below particulars: (5)

Net Operating Profit (EBIT)	Rs.5,00,000
12% Debentures of Rs.100 each	Rs.10,00,000
Overall Capitalisation Rate	20%