

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 2025

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. Define business finance and interpret its importance in financial decision making.
2. A person invests ₹10,000 in a bank that offers 6% annual interest, compounded quarterly. Identify the amount after 5 years.
3. An investor buys a stock for ₹200 per share and sells it after 2 years for ₹250 per share. During this period, the stock paid ₹10 per year as a dividend. Prepare the Holding Period Return (HPR).
4. A company invests ₹1,00,000 in a project and earns the following annual profits:

Year	Profit
1	15,000
2	20,000
3	25,000
4	30,000
5	35,000

Discover the Average Rate of Return (ARR) based on initial investment.

5. Describe the difference between Operating Lease and Finance Lease.
6. A lessor leases equipment worth ₹5,00,000 for 5 years at an annual lease rent of ₹1,50,000. If the cost of capital is 12% per annum, Predict the Present Value (PV) of lease payments.
7. i. A company's total credit sales for the year are ₹12,00,000, and its average accounts receivable during the year is ₹2,00,000.
Calculate the Average Collection Period (ACP) in days (Assume 365 days in a year).
ii. A company uses 10,000 units of raw material annually. The ordering cost per order is ₹500, and the holding cost per unit per year is ₹2.
Calculate the EOQ.

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8. A company is considering two investment projects, Project X and Project Y. Both projects require an initial investment of ₹50,000 and generate the following cash flows:

Year	Project X	Project Y
1	20,000	15000
2	15,000	20000
3	10,000	10000
4	5,000	5000

Calculate the Payback Period for both projects and determine which project is preferable.

Section C

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

9. A person takes a loan of ₹3,00,000 for a period of 10 years at an annual interest rate of 6%, compounded annually. Compute the annual installment payment using the Capital Recovery Factor (CRF) formula.
10. Classify the different methods of risk management. Discuss how businesses can hedge currency risk using financial instruments.
11. A company is considering whether to lease or purchase a piece of equipment worth ₹20,00,000. The equipment has a useful life of 5 years and no residual value.
- If purchased, it will be financed by a loan at 12% interest per annum, repaid over 5 years.
 - If leased, annual lease payments will be ₹5,00,000 per year for 5 years.
 - The company's cost of capital is 10%.

Using the Net Present Value (NPV) method, determine whether the company should lease or buy the equipment.

12. Determine the items into A, B, and C categories based on their annual consumption value

Item	Annual Usage (units)	Cost per unit
A	1,000	500
B	5,000	200
C	10,000	50
D	50,000	20
E	1,00,000	10

Contd...

II - Compulsory question (1 × 10 = 10 Marks)

13. A company is evaluating a project requiring an investment of ₹1,00,000. The expected cash flows over the next 4 years are:

Year	Cash Flow
1	30,000
2	40,000
3	50,000
4	30,000

The discount rate is 10%. Calculate the Net Present Value (NPV) and determine if the project should be accepted.
