LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com.DEGREE EXAMINATION – **COMMERCE**

SECOND SEMESTER – **APRIL 2019**

16/17/18PCO2MC03– STRATEGIC FINANCIAL MANAGEMENT

Date: 08-04-2019 Dept. No. Max. : 100 Marks

Time: 01:00-04:00

SECTION – A Answer ALL questions (10 x 2 = 20)

1. What are the functions of Financial Management?
2. Mention the pattern of Capital structure.
3. In what way Cost of Capital is very important in Financial Management?
4. What is lock box system in cash management?
5. Illustrate the Operating Cycle in Working Capital Management
6. Why is operating leverage existing in a financial statement?
7. What will be the value of Rs.10,000 deposits every year at 10% interest at the end of 5 years?
8. A Firm deposits Rs.5,000 at the end of each year for 4 years at 6% rate of interest. How much would this annuity accumulate at the end of the fourth year?
9. How is Discounted Pay Back Period better than Pay Back Period?
10. What are the benefits of holding Inventory?

SECTION – B Answer any FOUR questions (4 x 10 = 40)

11. a) Explain the forms of payment of Dividend.
    b) Discuss the various factors affecting the payment of Dividend Policy.

12. Critically analyse the Profit maximization and Wealth maximization in detail.

13. Prepare Income statement from the following information.
    a)Variable Expenses as a percentage of sales to 75%, Interest Rs.300: Operating Leverage= 6, Financial Leverage = 4 Tax rate = 50%
    b)Production= 2,00,00Units Selling Price Rs. 20 per unit, Variable cost Rs. 15 p.u Fixed cost Rs. 40,000. Interest Rs. 10,000 s Preference Dividend Rs. 5,000. No. of Equity shares 10,000: Tax @ 40% Calculate (a) All Leverages. b) Operating, Financial and Overall BEP

14. VYA ltd is considering the purchase of a computer. It can either be leased or purchased outright by borrowing at 12% interest payable at the end of each year. The principal amount is to be repaid at the end of 10 years. Other data:-

Purchase of computer: Cost 40, 00,000.Annual maintenance Rs 50,000 is to be paid in advance for every year. The life of the computer 10 years, depreciation 15% p.a on written down value, salvage value Rs 4, 00,000.

Leasing of computer: Initial lease payment is Rs 4, 00,000. Lease rent Rs 7, 00,000 p.a. payable in advance each year for 10 years. Cost of capital is 12%. Assuming there is no tax. Should the company buy or lease the computer?

15. a) Discuss the term internal rate of return (IRR) in detail.

b) A project requires an investment of Rs 1,00,000. it is expected to yield the following cash inflows.

YEAR	**CASH INFLOW**
1	30,000
2	40,000
3	60,000

Assume the discount rate to be 10%. Calculate IRR.

16. Calculate Operating Cycle in days from the following information assuming that number of days in year is 360.((all values are expressed in rupees)

Particulars	**01/ 4/2018**	**31/03/2019**
Stock of Raw Materials	200	210
Stock of WIP	45	40
Stock of Finished Goods	190	220
Debtors	275	300
Creditors	190	200

Raw Material Purchased	610
Manufacturing expenses	290
Depreciation of Factory	45
Excise Duty	105
Administration and selling expenses	160
Sales	1500

17. ABC LTD is considering the following credit policy alternatives

	OPTIONS		
	I	II	III
Credit Period (days)	30	40	60
Sales (Rs. In Lakhs)	10	11	12
Bad Debts (% of sales)	5%	3%	6%
Cost of credit administration (Rs,in lakhs)i.eAdmin.Exp	0.2	0.22	0.25
Average collection period (days)	45	50	70

The PV Ratio is 40%. The firm requires 20% of return on investment.

Suggest a suitable credit policy for the Firm.

SECTION – C Answer any TWO questions (2 x 20 = 40)

18. The following details are given relating to K ltd.

EBIT	23,00,000
Less: - 8% Debenture Interest	80,000
	22,20,000
Less:- 11% Loan Interest	2,20,000
EBT	20,00,000
Less:- Tax at 50%	10,00,000
EAT	10,00,000

No. of Equity shares (Rs 10 each) = 5,00,000 shares

Market Price per share = Rs 20; PE ratio = 10

The company has undistributed Reserves of Rs 20,00,000 . It requires Rs, 30,00,000 to redeem the debentures and modernize its plant which has the following financial option-

1. Borrow 12% loan from banks
2. Issue 1,00,000 Equity shares of Rs. 20 each and balance from a 12% bank loans

The Company expects to improve its rate of return by 2% as a result of modernization However the PE ratio is likely to reduce by 8, if entire amount is burrowed. Advise the company.

19. S Ltd. has the following book value of capital structure.

	Rs.
Equity capital (Rs.10 each)	100 lakhs
11% pref. share capital (Rs.100 each)	10 ”
Retained earnings	120 ”
13.5% Debentures (Rs.100 each)	50 ”
12% Term loans	80 ”
	360 ”

(1) The next expecteddividend per share is Rs.1.5. The Dividend per share expected to grow at 7%. The market price per share is Rs.20.

(2) Preference shares are redeemed at par after 10 years currently selling at Rs.75/-

(3) Debentures are redeemable at par after 6 years is currently selling at Rs.80.

(4) The tax rate is 50%.

20. A project requires investment of Rs 1,00,000 and the working capital of Rs 20,000 at the end of the first year. The project has a life of 5 years and the scrap value of Rs 20,000.The project yields the following profit before tax.

YEAR	PBT
1	20,000
2	40,000
3	60,000
4	50,000
5	30,000

Calculate

i. Payback period (PBP)

ii. Average rate of return (ARR)

iii. Net present value (NPV)

iv. Profitability index (PI)

v. Discounted Pay Back Period

Assume cost of capital is 10% and tax rate @ 50%.

21. X LTD manufacturers of T.V sets. From the Credit period given below the likely sales of T.V's will be increased in numbers. Recommend the credit period to be adopted each of the customers A, B, & C

CREDIT PERIOD	NUMBER OF TV SETS LIKELY TO BE SOLD		
	A	B	C
30 DAYS	1000	1500	-------
60 DAYS	1000	2300	1000
90 DAYS	1000	2500	1500

Selling Price of TV is Rs.9,000, PV Ratio 20% and the cost of capital is 20%.Assume a year is 360 days.