LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **APRIL 2022**

PCO 2503 – STRATEGIC FINANCIAL MANAGEMENT

Date: 20-06-2022 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

PART – A

Q. No **Answer ALL questions** **(10 x 2 = 20 Marks)**

1. What are the functions of Financial Management?
2. Write note on Net Operating Income Approach to Capital structure.
3. How do you calculate Cost of Retained earnings?
4. List out the advantages of Leasing.
5. Spell out the need to discount the cash flow received over periods.
6. What are the components of Operating Cycle?
7. What are the benefits of practicing the Concentration Banking?
8. What is the relevance theories of Dividend?
9. If you deposits Rs.5,000 today at 12% interest per annum. In how many years will this amount grow to Rs.1, 60,000? (use rule 72)
10. A person received an annuity of Rs.10,000 for four years. If the rate of interest is 10%. What will be the present value of annuity?

PART – B

Answer any FOUR questions **(4 x 10 = 40 Marks)**

Marks

11 a) A Ltd. required 90000 units of a certain item annually. The cost per unit is Rs. 3, ordering cost is Rs. 300 per order and carrying cost Rs. 6, per unit/ per year. 6

i. EOQ

ii. How many orders to be placed in a year?

iii. What should the firm do if the supplier offer the following discounts:

ORDERS x	Discount
4500 – 5999	2%
6000 and above	3%

b) A firm has 5 different items in its inventory. Suggest an ABC classification of these items. 4

Item No.	Average No. of Units in Stock	Average Cost per unit
1	10,000	80
2	15000	100
3	30000	30
4	25000	25
5	1,00,000	2

12 a) Discuss the various forms of Dividend. 4

b) **a)** Calculate the value of an equity shares of the following companies using, Walter's Model when payout ratios are ratios (a) 30% and (b)60%, c) 90% 6

Particulars	N Ltd	M Ltd	G Ltd
r	18%	20%	8%
k	15%	20%	10%
E	Rs 30	Rs 40	Rs.20

13 a) Discuss any four factors affecting the working capital requirement. 4

b) 6

Particulars	Rs
Average Debtors	4, 80,000
Raw Materials Consumed	44, 00,000
Total Production Cost	100, 00,000
Total Cost of Sales	105, 00,000
Sales	160, 00,000
Average stock of RM	3, 20,000
Average Stock of WIP	3, 50,000
Average Stock of Finished Goods	2, 60,000
Creditors Payment Period	20 days.

Calculate the operating cycle in days from the above particulars.

14 a) Write a note on Financial Leverage 2

b) Balance sheet of XYZ Ltd: 8

Liabilities	Rs.	Assets	Rs.
E.S. capital	60,000	Fixed asset	1,50,000
10% Debentures	80,000	Current Assets	50,000
Reserves	20,000		
Creditors	40,000		
Total	2,00,000	Total	2,00,000

The company's total asset turnover ratio is 3; fixed operating expenses Rs.1, 00,000; variable cost ratio = 40%; Tax ratio = 35%; calculate all leverages, EBIT if EPS isRs.3?

15 Critically analyse the Profit maximization and Wealth maximization in detail. 10

16 X LTD manufacturers of T.V.sets. From the credit period and likely sales of T.V's are given below. 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 25% and the cost of capital is 15%.Assume a year is 360 days.

17 a) Discuss the merits of Pay Back Period. 2

b) A ltd is currently spending Re 1 for a gallon disposed of its wastage after spending Rs 60,000 on research. The company discovered that the waste could be sold for Rs 12 per gallon if it's further processed. Such processing would require investment of Rs 6,00,000. the new equipment which will have 10 years life and no salvage value. 8

Additional expenses would be variable cost of Rs 5 per gallon, fixed cost (excluding depreciation) Rs 30,000 p.a. and advertising of Rs 20,000 p.a. General administration expenses of Rs 2 per gallon will be allocated to the new product. 40,000 gallons of wastage are expected to be sold every year. Tax rate is 40% and COC is 10%. Should the management dispose of further process the wastage?

PART – C

Answer any TWO question (2 x 20 = 40 Marks)

18 a) Explain the Capital Budgeting Process. 4

b) Loyola College incurred the following expenses on its visiting faculty during the previous year. 16

Salary	2,50,000
Travel	1,50,000
Accommodation	6,00,000
Boarding	2,00,000

The accommodation expenses are expected to increase by Rs 1,00,000 every year. The college plans to construct a building to take care of the accommodation of such faculty. This building will save Rs 80,000 in boarding charges and Rs 2,70,000 in cost of training .

To construct the building the college will use its existing land which was bought some years back at a cost of Rs 80,000. The building will cost Rs 16,00,000 and the annual maintenance is expected to be Rs 1,00,000 and the cost of construction will write off equally over 5 years. The tax rate is 50% and cost of capital is 15%. Should the college construct the building?

19 a) The New project under consideration requires Rs. 30,00.000. The financing option are- 4

1. Issue of Equity shares of Rs. 100 each
2. Issue Equity shares of Rs. 20,00,000 and 15% debentures for Rs. 10,00,000
   Tax rate is 50%.Calculate the indifference point of EBIT

b) From the following details relating to K ltd. 16

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. Advice the company.

20 a) Discuss the types of leasing 6

b) 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:-

i) 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. 14

ii)Leasing of computer: Initial lease payment 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

21 a) Discuss any factors affecting Cost of Capital. 4

b) A Ltd. Wishes raise an additional finance of Rs.10 lakhs to meeting its investment plans. It has Rs.2,10,000 in the form of retained earnings available for investment. 16

The following are the further details:–

(a) Debt Equity Ratio = 3:7

(b) Cost of debt (Kd)

 (i) Upto Rs.1,80,000 = 10%

 (ii) Over Rs.1,80,000 = 16%

(c) EPs =s.4

(d) Dividend payout Ratio = 50%

(e) Expected growth rate of dividend = 10%

(f) Current market price per share= Rs.44

(g) Tax rate = 35%

 (1) You are required to determine the pattern for raising additional finance assuming the company intends to maintain its existing debt equity ratio.

 (2) Determine the cost of additional debt.

 (3) Determine the cost of equity capital and retained earnings.

 (4) Compute the W.A Cost for additional finance using book value as weights.

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