LOYOLA COLLEEGE (AUTONOMOUS), CHENNAI – 600 034
M.Com DEGREE EXAMINATION
SECOND SEMESTER – APRIL 2013
SUB: CODE : CO 2817 SRATEGIC FINANCIAL MANAGEMENT

Date : Max: 100 Marks
Duration: 3 Hours

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

1. Identify the importance of Financial Management.
2. What do you mean by Time Value Money?
3. Explain the term Finance Lease.
4. Write a note on Operating Leverage.
5. Discuss the significance of Capital Budgeting.
6. If you have deposited Rs.55,650 in a bank which was paying a 12% rate of interest on a 10 years time deposit, how much would the deposit grow at the end of 10 years?
7. What are the features of an appropriate Capital Structure?
8. A Ltd. Issues 12% preference shares of Rs.100 each redeemable after 12years at par. The amount realized on issue is Rs.95. Calculate cost of preference shares.
9. The following projects are available for X Ltd to invest.Total funds available for investment are Rs 3,00,000. Which project wills you chose? If the projects are indivisible

PROJECTS	**INVESTMENT**	**NPV**
A	1,00,000	20,000
B	3,00,000	35,000
C	50,000	16,000
D	2,00,000	25,000
E	1,00,000	30,000

10. Sales = 1,000 units @ Rs 10 per unit variable cost Rs. 4 per unit. Fixed Cost Rs.2,000. Calculate the operating Leverage and interpret the results.

SECTION – B **Answer any FIVE questions** **(5 x 8 = 40)**

11. Discuss in detail the Factors affecting the payment of Dividend Policy.
12. Brifely explain the factors affecting the Cost of Capital.

13. What are the advantages of Leasing?

14. 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 Preference Dividend Rs. 5,000. No. of Equity shares 10000:Tax @ 40% Calculate. a) All Leverages .b)Operating, Financial and Overall BEP

15. 15.A Ltd is considering an invested in two project A and B whose cash inflows are given below:

YEAR	PROJECT A	PROJECT B
0	(-) 10,000	(-) 10,000
1	4,000	5,000
2	4,000	6,000
3	4,000	4,000

The riskless discount rate is 5%. Project A is less risky than in project B. the management considers the risk premium rate of 5% for project A and 10% for project B. Evaluate the projects.

16. A Ltd company has an annual turnover of Rs.84 crores .The sales is spread evenly over 50 weeks of the year. However the receipts on Monday and Tuesday are twice that of each of the other 3 days of the week. The cost of banking per day is Rs.2,500. It is suggested to be deposited twice a week on Tuesday and Friday as compared to the current practice of banking only on Friday. A Ltd company has a Bank OD on 15% p.a. Interest being charged on a daily basis. Advise a Ltd Company the best course of Banking assuming 360 days a year.

17. X Ltd requires Rs. 200000 for expansion. It has the following financial option.
a).100% equity shares of Rs 10 each at Rs 10 Premium
b).50% equity issue of Rs. 10 each at Rs 10 Premium and 50% , 8% debentures
c).50% equity issue of rs. 20 each and 50%, 10% preference shares

The company expects return of 10% on its investment after expansion. Which financing option would you recommend and also calculate indifference point of EBIT between various plans.

18. Existing sales Rs. 2,40,000, Average collection period 30 days. The company proposals to recognize its credit period as follows:

Proposed increase in credit Period beyond 30 days	Increase over existing sales Rs.
15 days	12,000
30 days	18,000
45 days	21,000
60 days	24,000

The PV ratio is 33.33% and the cost of capital is fixed at 20%.Evaluate the alternatives.

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

19. AB Ltd gives you the following figures

EBIT	3,00,000	No of Equity shares is 40.000
Less: 12 % Debenture Interest	60,000	Market Price Per share=Rs.30
	2,40,000	
Less: Income tax @ 50%	1,20,000	
EAT	1,20,000	

$$EPS = \frac{1,20,000}{40,000} = \text{Rs 3 per share. } PE = \frac{\text{Market Price Per share}}{EPS} = \frac{30}{3} = \text{Rs.}10$$

The company has undistributed reserves of Rs.6,00,000 It requires Rs.2,00,000 for expansion. This amount will earn the same rate of return on funds employed as it is earned now.
You are informed that the Debt-Equity ratio = (Debt/ Debt + Equity) higher than 35% will reduce the PE ratio to 8 and raise the interest rate on additional funds burrowed to 14%.
The company would prefer to raise the entire funds required through equity or through debt. Which would you recommend?

20. 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.

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 =Rs.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%

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

(1) Determine the cost of additional debt.
(2) Determine the cost of equity capital and retained earnings.
(3) Compute the W.A Cost for additional finance using book value as weights.

21. A Ltd wishes to acquire a computer costing Rs 1,00,000.it faced with two options :-
a). It purchase a computer by taking 15% bank loan ,repayable in 5 equal installments at the end of the each year together with interest.
b). To lease the computer at the rental of Rs 320 per 1000 of the asset value payable at the end of each year for 5 years.
The tax rate is 50% and C.O.C is 16% and the asset as a scrap value of 50% of the book value at the end of its life of 8 years. Which option would be recommended? Assuming that company provide 20% depreciation on W.D.V.

22. Analyse the factors affecting Working Capital requirement in detail.