LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECONDSEMESTER – APRIL 2017

CO 2817- STRATEGIC FINANCIAL MANAGEMENT

Date: 02-05-2017 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

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

1. Write a note on Wealth Maximisation.
2. How do you arrive at Indifferent Point in Capital Structure?
3. What are the assumptions for Capital Asset Pricing model?
4. Illustrate the term NPV in Capital Budgeting.
5. Explain the Concentration Banking of system of collecting cash.
6. How does Financial Leverage exist in leverage Analysis?
7. A person received an annuity of Rs.5,000 for four years. If the rate of interest is 10%. What will be the present value of annuity?
8. Discuss the various forms of Dividend Payment.
9. Calculate EBIT and EBT when Interest is Rs.300 and Financial Leverage is = 4
10. X ltd has the following projects available for investment.

Project	A	B	C	D	E
Investment	1,00,000	3,00,000	50,000	2,00,000	1,00,000
NPV	20,000	35,000	16,000	25,000	30,000

Total funds available for investment are Rs 3,00,000. Which project wills you chose ifprojects are divisible?

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

11. Discuss the various factors affecting the Capital Structure.
12. Explain in detail the factors affecting the payment of Dividend Policy.
13. From the following details calculate leverages and interpret the results.

Particulars	**A**	**B**	**C**
Output(units)	60,000	15,000	1,00,000
Selling Price(Rs.)	1	3	0.5
Fixed Cost	7,000	14,000	15,000

Variable Cost	0.20	1.50	0.02
Interest	4,000	8,000	10,000
Preference dividend	-	-	5,000
Tax rate	50%	50%	50%

14. 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.

15. A Ltd. issued Rs.1000, 15% debt at par repayable in 3 annual installments of Rs.300, Rs.300 and Rs.400 at the end of the 7^{th}, 8^{th}, 9^{th} years respectively. The issued cost is 3% and the tax rate is 60%.Calculate the Cost of Debt from the above particulars.

16. 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 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?

17. A ltd is currently spending Re 1 for a gallon disposed of its wastage after spending Rs60,000 on research. The company discovered that the waste could be sold for Rs 10 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.

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 35% and COC is 15%. Should the management dispose of further process the wastage?

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

18. From the following details relating to Kamal 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.Market Price per shares = 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 8 if entire amount is borrowed. Advise the company.

19. Sudan Ltd has the following book value of capital structure: Rs in lakhs

Equity Share Capital (Rs. 10 each)	100
11% Preference share Capital (Rs. 100) each	10
Retained Earnings	120
13.5% Debentures (Rs 100 each)	50
12% Term Loan	80
	360

1) The next expected dividend 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 is currently sellingat Rs.75.
3) Debentures are redeemable at par after 6 years is currently selling at Rs. 80.
4) Tax rate is 50%.Calculate weighted average COC using book value and market value as weights

20. A project requires investment of Rs.1, 00,000 are 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 projects yield the following profits before tax:

Year	Profit before Tax (PBT) Rs.
1	20,000
2	40,000
3	60,000
4	50,000
5	30,000

Calculate: (i) Pay back period (PBP).

(ii) Average Rate of Return (ARR)

.(iii) Net Present Value (NPV)

(iv) Profitability Index (PI).

(v) Discounted pay back period.

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

21.The cost sheet of PQR Ltd provides the following data. Calculate working capital requirement according to Total Cost Method and Cash Cost Method.

Raw material	Rs. 50 per unit
Labour	Rs. 20 per unit
OHS (including Depreciation Rs. 10)	Rs. 40 per unit
Profit	Rs. 20 per unit
Selling price	Rs.130 per unit

1. Raw material is in stock 1 month.
2. WIP for ½ month.
3. Finished goods for 1 months
4. Credit allowed by suppliers 1 month.
5. Credit allowed to customers 1 month.
6. Average time lay in payment of wages = 10 days and payment of OHS 30 days
7. 25% of the sales are for cash. The cash balance of Rs. 1,00,000 is to be maintained.

Ascertained the requirement of working capital needed to finance level of activity of 54,000 units. Production is carried on evenly throughout the year and wages and over heads accrue evenly throughout the year.

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