LOYOLA COLLEEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com DEGREE EXAMINATION

SECOND SEMESTER – APRIL 2015

SUB: CODE: CO 2817 SUB: NAME: STRATEGIC FINANCIAL MANAGEMENT

Date: Max: 100 Marks

Duration: 3Hours

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

1. What are the goals of Financial Management?
2. Write a note on Net Operating Income approach for Capital Structure.
3. Bing out the significance of Cost of Capital.
4. Illustrate the term ARR in Capital Budgeting.
5. Explain the objectives of Cash Management.
6. Mention the items to be included on an Operating Cycle.
7. A person deposits Rs.2, 000 at 10% interest per annum. What will be the amount at end of 5 years?
8. An investor wants to find out the present value of Rs.50, 000 to be received after 15 years. His interest rate is 9%.
9. Calculate DFL When EBIT, EBTPreference Dividend and Tax rate are Rs. 33,000, Rs. 23, 000, Rs.5, 000 and 50% respectively.
10. The New project under consideration requires Rs. 30, 00,000. The financing options are (a)Issue of Equity shares of Rs. 100 each. (b)Issue Equity shares of Rs. 20,00,000 and15% debentures for Rs. 10,00,000.Tax rate is 50%.Calculate the indifference point of EBIT.

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

11. Discuss the various factors affecting the payment of Dividend Policy.

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

13. Balance sheet of Mohan Ltd as follows:

Liabilities	Rs.	Assets	Rs.
Eq.Sh. Capital(Rs.10 each)	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?.

14. From the following data calculate the Operating Cycle in days:

	Rs.
Average Debtors	4, 80,000
Raw Materials Consumed	44, 00,000
Total Production Cost	1, 00, 00,000
Total Cost of Sales	1, 05, 00,000
Sales	1, 60, 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	16 days.

15. Anbu Ltd has an equity capital consisting of 5,000 Equity Shares of Rs 100 each. It plans to raise Rs. 3,00,000 for the financial expansion programme and identify four options for raising funds.

a. Issued Equity shares of Rs 100 each
b. Issue 1,000 Equity shares of Rs.100 each and 2,000 8% Preference shares of Rs 100 each
c. Borrow of Rs 3,00,000 at 10% interest p.a
d. Issue 1,000 Equity shares of Rs.100 each and Rs. 2,00,000; 10% debentures

This company expects the EBIT of Rs 1, 50,000 after its expansion. Tax rate is 50%. Suggest the source in which funds should be raised.

16. X Ltd. is considering to purchase a computer for its Research & Development purpose and the cost of the same will be Rs.35, 00,000. The operating cost [excluding depreciation] would be Rs. 7, 00, 000 p.a. The system has an useful life of 6 years at the end of which the salvage value of Rs. 1, 00,000 is expected. The system would reduce deciding cost by Rs. 12, 00,000 p .a. The existing drawing office which is presently being used would be sold for Rs. 9, 00,000. Being capital expenses for R

& D, the proposed plan will attract 100% depreciation to write off the cost of the computer for tax purpose. The gain from disposing the old equipment and its salvage value may be considered to be tax free. The COC is 12%. Tax rate is @50%. Advice the company.

17. A firm has purchased on asset for Rs 2,500 having 5 years life and the salvage value ofRs 500 at the end of 5th year. The firm provides depreciation on straight line method. The firm is expected to increase the revenue by Rs. 1,500 p.a. and its operating expenses will increase by Rs 700 p.a excluding depreciation and interest tax rate is 50% and the COC is 10%.
Alternatively the asset can be leased for an annual rent of Rs 650 p.a the incremental balance revenue will be Rs 1,500 p.a the operating expenses Rs 600 p.a.Evaluate the proposal.

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. SudanLtd 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 selling at 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. Loyola College incurred the following expenses on its visiting faculty during the previous year 2014-2015.

	RS.
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 which were either to conduct in a nearby hotel every year or to construct the building the college will use its existing land which was bought some years back at a cost of Rs- 8,00,000 the building will cost Rs. 16,00,000 and the annual maintenance is expected to be Rs 1,00,000 the cost of construction will written off equally over 5 years. The tax rate is 50% and cost of capital is 15%. Should the college construct the building?

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.9000, PV Ratio 20% and the cost of capital is 20%.Assume a year is 360 days.

ALL THE BEST
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