LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **APRIL 2016**

CO 2817 - STRATEGIC FINANCIAL MANAGEMENT

Date: 22-04-2016 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. What are the patterns of Capital Structure?
3. Bing out the factors affecting the Cost of Capital
4. Illustrate the term IRR in Capital Budgeting.
5. Explain the various cost of maintaining Debtors **:**
6. Why is operating leverage existing?
7. Suppose your father gave you Rs.1, 000 on your 18th birthday. You deposited this amount in a bank at 10% rate of interest for one year. How much future sum would receive after one year?
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. Calculate DFL When EBIT, EBT Preference Dividend and Tax rate are Rs. 33,000, Rs. 23, 000, Rs.5, 000 and 50% respectively.
10. A project required an investment of Rs. 20,000 and has the following cash inflows Rs. 6,000, Rs. 8,000, Rs. 5,000, Rs. 4,000 and Rs. 4,000. Calculate PBP.

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. From the following particulars prepare the income statement and calculate the degree of financial leverage
 operating leverage = 2; combined leverage = 3; at present sale level of 10,000 units; selling price = Rs.12; variable cost = 50% of sales; tax rate = 50%, the company has no preference share capital. Calculate the amount of debt to the capital structure
 if the rate of interest of the company's debt is 16 %.
14. 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.

 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 above	3%

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. Issue 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. A firm has purchased on asset for Rs 2,500 having 5 years life and the salvage value of Rs 500 at the end of 5^{th} year. The firm provides depreciation on straight line method. The firm is expected to increase the revenue by 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.

17. A company has a machine which has been in operation for 2 years. Remaining estimated life is 10 years with no salvage value. Its current market value is Rs 1,00,000. The management is considering a proposal to replace its machine with a new machine. The relevant particulars are as follows.

Particulars	**Existing Machine**	**New Machine**
Purchase Price	2,40,000	4,00,000
Estimated Life	12 Years	10 Years
Annual Operating Hours	2,000	2,000
Selling Price Per Unit	10	10
Output Per Hour	15 Units	30 Units
Material Per Unit	Rs 2	Rs 2
Labour Per Hour	20	40
Other Expenses	11,000	11,000
Working Capital	25,000	40,000

Tax rate is 50% and COC is 15%. Loss on sale of asset is tax deductible. Should the machine be replaced?

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

18. The capital structure of ABC ltd consists of 5% Debentures Rs. 20,000: Equity Share Capital (Rs.10 each) Rs 50,000 and Reserves Rs. 30,000. Its income statement is as follows

Sales	3,00,000
Less:- Total Cost	2,69, 000
EBIT	31,000
Less: Interest	1,000
EBT	30,000
Less: Tax	10,500
EAT	19,500

The Expansion Programme is expected to cost Rs. 50,000and this is financed through debt and the rate of interest will be 7% and the PE ratio will be 6. If the expansion is financed through Equity the new shares are sold Rs.25 each and the PE ratio will be 7.

The expansion will increase the sales by 50% with the return of 10% on the new sales before interest and Taxes. Advice the company.

19. 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%

  (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.

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

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.Tthe 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 sa period of 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.9,000, PV Ratio 20% and the cost of capital is 20%.Assume a year is 360 days.

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