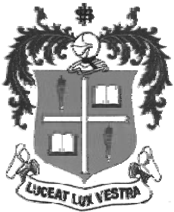

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.Com. DEGREE EXAMINATION - **COMMERCE**

SECOND SEMESTER – **NOVEMBER 2013**

CO 2817 - STRATEGIC FINANCIAL MANAGEMENT

Date : 06/11/2013 Dept. No. Max. : 100 Marks
Time : 1:00 - 4:00

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

1. What are the goals of Financial Management?

2. How do you interpret Operating Leverages?

3. Explain the term Indifferent Points.

4. Write a note on the traditional approach to Capital Structure.

5. Mention the formula for Redeemable Debt.

6. What is Time Value of Money?

7. What is Capital Budgeting?

8. Illustrate ABC with regard to Inventory Management.

9. The risk free rate of return is 8% the return on market port folio is 12% calculate the cost of equity stocks whose beta values save (a) 0.9, (b) 1.5.

10. Calculate the value of money after 5 years, if a person deposits Rs.1,000 in a Bank, at the rate of 12% per annum

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

11. What are the roles of a Financial Manager in the modern changing Scenario?

12. Dicuss the advantages of Leasing.

13. 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

14. X Ltd. has the following projects available for investment.

Project	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

Total funds available for investment is Rs. 3,00,000. Which project will you choose if
(1) Projects are divisible. (2) Projects are indivisible.

15. A Ltd has an equity capital consisting of 5000 Equity Shares of Rs 100 each. It plans to raise Rs.300000 for the financial expansion programme and identify four options for raising funds.
1) Issued Equity shares of Rs 100 each. 2) Issue 1000 Equity shares of Rs.100 each and 2000 8% Preference shares of Rs 100 each. 3) Borrow of Rs 300000 at 10% interest p.a. 4) Issue 1000 Equity shares of Rs.100 each and Rs. 200000, 10% debentures. This company has EBIT of Rs 150000 of its expansion. Tax rate is 50%. Suggest the source in which funds should be raised

16. A Ltd. issued Rs.100, 15% debt at par repayable in 3 annual installments of Rs.30, Rs.30 and Rs.40 at the end of the 7th, 8th, 9th years respectively. The issued cost is 3% and the tax rate 60%

17. 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 and above	3%

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

18. The cost sheet of PQR Ltd provides the following data:

Raw Materials	Rs.50 per Unit
Labor	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 for 1 month.
2. WIP for ½ month.
3. Finished Goods for 1 month.
4. Credit allowed by suppliers 1 month.
5. Credit allowed to debtors 1 month.
6. Average time lag 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.

Ascertain the level of working capital needed to finance level of activity of 54000 units. Production is carried out evenly throughout the year and wages and OHS accrue evenly throughout the year.

19. A Ltd. Wishes to 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.

20. A highly profitable company plans to put up a windmill to generate electricity. The details of which are as follows :

1. The cost of windmill Rs. 3,00,00,000 with 10 years life and no residual value.
2. The cost of land Rs. 15,00,000 which will appreciate to 60 lakhs at the end of 10 years.
3. Subsidy to Government Rs. 15,00,000 will be received at the end of one year.
4. Electricity will be sold at 2.25 per unit in year1, increasing by .25 paise per year up to 7th year and thereafter by .50 paise till the 10th year.
5. The Cost of Capital is 15% and tax rate id 50%. Ignore tax on capital profit.
6. Maintenance cost is Rs. 4,00,000 in the 1st year and will increase by Rs. 2,00,000 per year thereafter.
7. Windmill is subject to 100% depreciation in year1 at the Income tax Act.
8. Electricity generated will be 25,00,000 units per annum, 4% of which will be given free to the state Electricity Board.

Ascertain the viability of the project

21. X ltd has to make a choice between debt issue and equity issue for its expansion programme. Its current position is as follows-

The capital structure consist of 5% Debentures Rs. 20,000: E. Share Capital (Rs.10) 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. 50,000. This is financed through debt, 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.