LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **APRIL 2023**

PCO 2503 – STRATEGIC FINANCIAL MANAGEMENT

Date: 03-05-2023 Dept. No. Max. : 100 Marks
Time: 01:00 PM - 04:00 PM

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

1. What is Financial Management all about?
2. Write notes on Net Operating Income to Capital structure.
3. What are the factors affecting the Cost of Capital in Financial Management?
4. Why is Capital Budgeting considered to be very important?
5. Mention the different types of leases.
6. Why does Financial Leverage exist in a financial statement?
7. A person deposits Rs.2,000 at 10% interest per annum. What will be the amount at end of 5 years?
8. Suppose your father gave you Rs.100 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?
9. Indicate the ways of raising the temporary working capital for the Textile Company
10. What are the different motives of Cash Management?

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

11. Discuss in detail the various factors affecting requirement of Working Capital.

12. How does Profit maximization differ from Wealth maximization?

13. Balance Sheet of X ltd..

Liabilities	Rs.	Assets	Rs.
Equity Share Capital 10% Debentures Reserves Creditors	60,000 80,000 20,000 40,000	Fixed Asset Current Asset	1,50,000 50,000
	2,00,000		2,00,000

i) The Company's total Asset turnover ratio is 3. ii) Fixed operating expenses is Rs.1,00,000. iii) Variable cost ratio = 40%,. iv) Tax rate= 35%.

a) Calculate all leverages. b) Calculate EBIT if EPS is Rs 3

14. Jerry Ltd has purchased an asset for Rs 2,500 having 5 years of life and a salvage value of Rs 500 at the end of the 5th year. The firm provides depreciation on a straight-line method. The firm is expected to increase its revenue by 1,500 p.a. and its operating expenses will increase by Rs 700 p.a excluding depreciation and interest, the 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.

15.a) Discuss the various steps in finalising the Capital Budgeting.

15.b) A Project requires an investment of Rs. 1,00,000. It is expected to yield the following cash inflows:

Year	Cash Inflows Rs.
1	30,000
2	40,000
3	60,000

Assume discount rate at 10% and 15%. Calculate IRR.

16a) Discuss the various factors affecting the payment of dividends.

16 b) Calculate the value of a equity shares of company X Ltd. and Y Ltd. from the Ratios (a) 50% and (b)75%

		X Ltd.	Y Ltd.
r	=	12%	15%
Ke	=	10%	10%
E	=	Rs.15	Rs.12

17a) M Ltd is considering releasing its collection efforts. Existing sales are Rs.50, 00, 000; the average collection period is 25 days pv ratio 25% cost of capital 15%, and bad debts 4%. The relaxation of the collection effort will increase sales by Rs.6, 00, 000, increase the average collection period to 40 days and increase bad debts to 6% . The company can save collection expenses up to Rs.10, 000. Advise the Company.

17.b) 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.

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

18.AB ltd gives you the following figures

Particulars	Rs
EBIT	3,00,000
Less: 12 % Debenture Interst	60,000
	2,40,000
Less: Income tax @ 50%	*1,20,000*
EAT	*1,20,000*

No. of Equity shares = 40,000

$$EPS = \frac{1,20,000}{40,000} = \text{Rs } 3 \text{ per share.}$$

Market price per share = Rs.30

$$\text{Price Earnings Ratio (PE)} = \frac{\text{Market Price Per share}}{\text{EPS}} = \frac{30}{3} = 10$$

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?

19. R Ltd has the following capital structure.

Equity capital (Rs. 20 each)	40 Lakhs
6% pref capital(Rs. 100 each)	10 lakhs
8% debentures	30 lakhs

Market price of equity is Rs. 20

The current dividend is Rs. 2 per share which is expected to grow at 7% per annum. The tax rate is 50%. Calculate.

i. Weighted average COC based on book value.

ii. The new weighted average COC if the company an additional Rs. 20 lakhs as 10% debentures to finance for expansion. This would result in increasing the expected dividend per share to Rs. 3 and increase the growth rate of dividend to 10% but the market price of equity share will fall to Rs. 15.

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 the 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 the first year, increasing by .25 paise per year up to 7^{th} year and thereafter by .50 paise till the 10^{th} year.
5. The COC is 15% and the tax rate is 50%. Ignore tax on capital profit.
6. Maintenance cost is Rs. 4,00,000 in the 1^{st} year and will increase by Rs. 2,00,000 per year thereafter.
7. Windmill is subject to 100% depreciation in the first year itself as per 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. The cost sheet of PQR Ltd provides the following data.

Raw material	Rs. 50 per unit
Labour	20 per unit
OHS (including depreciation Rs. 10)	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 the level of activity of 54,000 units based on (A) Cash Cost Method and (B) Total Cost Method. Production is carried on evenly throughout the year and wages and OHS accrue evenly throughout the year.

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