LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **APRIL 2023**

PCO2MC02 – STRATEGIC FINANCIAL MANAGEMENT

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

SECTION A – K1 (CO1)

	Answer ALL the questions **(5 x 1 = 5)**
1.	**True or False / Answer the following / MCQ/ Simple Problems**
a)	Profit acts as a measure of the efficiency of any business. T/F
b)	Firms whose sale fluctuates widely should employ more debt. T/F
c)	A person deposits Rs.5,000 at 10% interest per annum. What will be the amount at the end of 5 years?
d)	A finance Company offers Rs.8,000 after 12 years in return for Rs.1,000 deposited today. Using the ru 69, calculate the rate of interest offered by the company. (use rule 69)
e)	The formula for calculating the Cost of Capital includes A) Risk-Free Interest. .B) Business risk and Risk-Free. C) Financial risk Premium. D) All of the above

SECTION A – K2 (CO1)

	Answer ALL the questions **(5 x 1 = 5)**
2.	**Match the following**
a)	Working Capital = Irrelevance
b)	Debtors Management = Leveraged
c)	Types of Leasing = Transaction Motive
d)	Cash Management = Credit Policy
e)	Dividend Theories = Operating Cycle

SECTION B – K3 (CO2)

	Answer any THREE of the following **(3 x 10 = 30)**
3.	Explain the different aspects of Financial Management in detail.
4.	Discuss the types and advantages of Leasing.
5.	Sales = 1,000 units @ Rs 12 per unit variable cost Rs. 4 per unit. Fixed Cost Rs.3,000. Interest is Rs. 1.000 and Income Tax is at 50%. Calculate the operating and financial leverages and interpret the results. The number of Equity shares = 1,000. a) If the sales decrease by 25%. What will be the increase in EBIT? b) What is the impact on EPS when EBIT increases by 40%?
6.	a) PQR..Ltd company has an annual turnover of Rs.84 crores. The sales is spread evenly over 50 weeks of the year. However, the receipts on Monday and Tuesday are twice that of each of the other 3 days of the week. The cost of banking per day is Rs.2,500. It is suggested to be deposited

twice a week on Tuesday and Friday as compared to the current practice of banking only on Friday. The company has a Bank overdraft of 15% p.a. Interest being charged on a daily basis. Advise the company on the best course of Banking assuming 360 days a year. **(7 marks)**

b) Write a note on (i) Lock Box system. (ii) Concentration Banking. (1.5 x 2 = 3

7. Calculate the value of equity shares of companies X Ltd, Y Ltd, and Z ltd using Walter's Model when the Pay Ratio is (a) 25% and (b)50% (c) 75%

		X Ltd.	Y Ltd.	Z Ltd
r	=	15%	5%	10%
Ke	=	10%	10%	10%
E	=	Rs.8	Rs.8	Rs. 8

SECTION C – K4 (CO3)

Answer any TWO of the following **(2 x 12.5 = 25)**

8. Discuss the factors affecting the capital structure of corporates in general.

9. a) ABC LTD is considering the following credit policy alternatives

Particulars	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.e Admin.Exp	0.20	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. **(10 marks)**

b)Discuss the 3c' factors in judging the creditworthiness of the customers.(2.5Mark

10. XYZ Ltd has sales of Rs .75,00,000, a variable cost of Rs 42,00,000 and a fixed cost of Rs 6,00,000. It has a debt of Rs 45,00,000 at 9% and equity of Rs. 55,00,000.

   a. What is the firm's ROI?
   b. Does it have favourable Financial Leverage?
   c. Calculate operating, financial and combined leverages of the firm.
   d. If the sales drop to Rs. 50,00,000 and what will be the new EBIT?

At what level, the EBIT of the firm will be equal to zero?

11. **a)** Explain the factors affecting the cost of capital. **(4 Marks)**

   b) A Ltd issued Rs.100, 15% debt at par repayable in 3 annual instalments of Rs.30, Rs.30 and Rs.40 at the end of the 7^{th}, $8^{th,}$ and 9^{th} year respectively. The issued cost is 3% and the tax rate is 60%. **(8.5 marks)**

SECTION D – K5 (CO4)

Answer any ONE of the following **(1 x 15 = 15)**

12. Rane Ltd has given the following information when the company has undistributed reserves of Rs.4, 24,000 It requires Rs.5,00,000 for expansion and repay the bank loan borrowed at 7,5%. The Company expects to improve its rate of return by 5% as a result of modernization.

Particulars	Rs
EBIT Less Debenture Interest @ 15% Less Bank Loan @ 7.5%	3,00,000 45,000 15,000
EBT IT	2,40,000 96,000
EAT	1,44,000
EPS	1,44,000/57,600=2.5
Market Price Per share	25
PE ratio = market price per share/ EPS	25/2.5= 10

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 18%. The company would prefer to raise the entire funds by following options:

a)To issue through equity shares only

b)To raise through debt at 18% interest

c) Rs. 2,00,000 in the form of equity and reaming by the issue of debenture @ 18%.

Which would you recommend?

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

Raw Materials	Rs.50 per Unit
Labour	Rs.20 per Unit
Over Heads (including depreciation Rs. 10)	Rs. 40 per Unit
Profit	Rs. 20 per Unit
Selling price	Rs. 130 per Unit

a) Raw material is in stock for 1 month.

b) Work in Progress for ½ month and assume that Labour and Over-Heads are completed to the extent of 60% in work in progress while calculating the equivalent production.

c) Finished Goods for 1 month.

d) Credit allowed by suppliers 1 month.

e) Credit allowed to debtors 1 month.

f) Average time lag in payment of wages 15 days and payment of overheads 30 days.

g) 25% of the sales are for cash. The cash balance of Rs. 1,00,000 is to be maintained.

Production is carried out evenly throughout the year but wages and overheads accrue evenly with some modification throughout the year. Ascertain the level of working capital needed to finance the level of activity of 60,000 units under the **Total Cost and Cash Cost method, and** Assuming that

	10% margin is required calculate the level of working capital.

SECTION E – K6 (CO5)

	Answer any ONE of the following **(1 x 20 = 20)**
14.	A ltd. Wishes to raise an additional allotment of Rs. 12 lakhs to meet its investment plans. It has Rs. 2,00,000 in form of retained earnings available for investment. The following are further details:- a) Debt Equity Ratio = 4:8 b) Cost of debt (Kd) a. Upto Rs. 1,00,000 = 14% b. Over Rs 1,00,000 = 12% c) EPS = Rs. 2 d) Dividend Pay-out ratio = 50% e) Expected growth rate of dividend = 12% pa f) Current market price per share = Rs. 25 g) Tax rate = 40% 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 WAC for additional finance using book value as weights. Compute the WAC for additional finance using market value as a weight when the face value of the share is Rs. 10 per share.
15.	X Ltd sells computer service to its client so it is decided to acquire an additional computer and the details of which are as follows a) The purchase price of the computer is Rs.2,30,000 and maintenance cost will be Rs. 20,000 p.a. and additional operating expenses for the computer are estimated at Rs. 80,000 p.a . If the computer is rented the annual rental will be Rs. 85000 Plus 5% of annual billings but the rent is due on the last day of each year. b) Due to competition the company feels it will be necessary to replace the computer at the end of 3 years and the resale value is estimated at Rs. 1,10,000 c) Tax rate is 35% and depreciation is 25% on WDV and the COC is 13% pa d) The estimated annual billing for the service of the computer will be 1^{st}-year Rs. 2,20,000 2^{nd}& 3^{rd} year Rs. 2,60,000 f) If the computer is purchased a 20% bank loan has to be taken which will be repaid in the 3^{rd} year the interest being payable annually. i) Should the company purchase or lease the computer?

	ii) If the COC is 12% depreciation, is under the straight-line method & the salvage value Rs. 1,10,000& the tax rate is 50% would the proposal be financially viable iii) If the leasing company follows the WDV method of depreciation at 30%, the expected salvage value at the end of 3 years is rs 1,00,000 & the tax rate is 35. Calculate the net (NPV) advantage of leasing or purchasing from the point of view of the lessee and the lessor.

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