LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECOND SEMESTER – **APRIL 2013**

CO 2817 - STRATEGIC FINANCIAL MANAGEMENT

Date : 02/05/2013 Dept. No. Max. : 100 Marks
Time : 9:00 - 12:00

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

1. Discuss the Function of Financial Management.
2. What do you mean by Operating lease?
3. Mention the External Factors affecting payment of Dividend Policy?
4. Write a note on Financial Leverage
5. Give the list of Factors affecting the Cost of Capital.
6. The risk free rate of return is 8% the return on market portfolio is 12% calculate the cost of equity stock when beta value is 0.8,
7. What will be the value of Rs.1,000 deposits every year at 10% interest at the 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 you receive after one year?
9. X ltd has the following projects available for investment.

Projects	**Investment (Rs.)**	**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 are Rs 3,00,000.Which project will you choose if the projects are divisible?

10. The New project under consideration requires Rs. 30,00.000. The financing option are-a) Issue of Equity shares of Rs. 100 each. b) Issue Equity shares of Rs. 20,00,000 and 15% debentures for Rs. 10,00,000. Tax rate is 50%. Calculate the Indifference Point EBIT.

SECTION – B Answer any FIVE questions (5 x 8 = 40)

11. Discuss in detail the Factors affecting the requirement of Working Capital.
12. Briefly explain Capital Budgeting Processes.
13. Explain the theories on Capital Structure.
14. Variable Expenses as a percentage of sales to 75%, Interest Rs.300: Operating Leverage= 6, Financial Leverage = 4 Tax rate = 50%.Prepare income statement.
15. A project having an initial investment of Rs 6,000. it has the following cash inflows with a respective probability. COC is 15%. Ascertain NPV

Year 1		**Year 2**		**Year 3**	
CASH INFLOW	*PROB*	*CASH INFLOW*	*PROB*	*CASH INFLOW*	*PROB*
1000	0.1	2000	0.2	1500	.1

1500	0.2	2500	0.3	2200	.7
2000	0.4	2700	0.2	2800	.1
2500	0.2	2800	0.3	3500	.1
3000	0.1				

16. X ltd is considering the purchase of a computer .it can either be leased or purchased outright by borrowing at 12% interest payable at the end of each year. The principal amount is to be repaid at the end of 10 years. Other datas are as follows:-Cost price of computer is Rs.40,00,000.annual maintenance Rs 50,000 to be paid in advance for every year. The life of the computer 10 years ,depreciation 15% p.a on W.D.V. The salvage value is Rs. 4,00,000.If the computer is leased out and the initial lease payment Rs. 4,00,000/-.The lease rent Rs. 7, 00,000 p.a payable in advance each year for 10 years. The cost of capital is 12% assuming there is no tax. Should the company buy or lease the computer?

17. A Ltd. required 90,000 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 year.

i. EOQ
ii. How many orders are 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%

18. The present credit terms of A Ltd are 1/10 net 30. Its sales are 1.2 crores and its average collection period is 24 days. The purchase value ratio is 20% and cost of capitol is 15%. The proportion of sales on which the customer currently allowed sales discount is 30%.A Ltd wants to revise discount rates to 2/10 net 30. This will increase sales by 12,00,000 reduce average collective period to 16 days and increases the proportion of discount sale to 70%.Advice the company.

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

19. Loyola College incurred the following expenses on its visiting faculty during the previous year.

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 near by hotel every year or to construct the building so that college will use its existing land which was bought some years back at a cost of Rs 8,00,000.Now 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 write off equally over 5 years. The tax rate is 50% and cost of capital is 15%. Should the college construct the building?

20. From the following details relating to K 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 shares. Market Price per share = 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 by Rs. 8, if entire amount is burrowed. Advise the company in this context.

21. R Ltd. Has the following capital structure.

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

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:–a)Weighted average COC based on book value)The new weighted average COC if the company an additional Rs.20 lakhs, as 10% Debentures to finance for expansion. This would resulted in increasing expected dividend per share to Rs.3 and increase growth rate of dividend to 10%.but the market price of equity share will fall to Rs.15.

22. As you being the Finance Manager of company what are the important factor you would consider necessary for Capital structure of Company.