LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

SECONDSEMESTER – APRIL 2018

CO 2817- STRATEGIC FINANCIAL MANAGEMENT

Date: 21-04-2018 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

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

1. What do you mean by Profit Maximisation in Financial Management?
2. Write a note on Traditional approach for Capital Structure.
3. Illustrate the term ARR in Capital Budgeting
4. Mention the various costs of maintaining debtor in bills receivable management.
5. Why is Wealth maximization gaining more importance in Financial Management?
6. Classify the different types of Working Capital.
7. Discuss the external factors affecting the payment of Dividend Policy.
8. 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?
9. Suppose your father gave you Rs.1000 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?
10. The percentage of variable cost is 40 % on of Sales Rs. 1, 00,000 and the fixed cost is Rs.20, 000, Calculate Operating Leverage and interprets the results.

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

11. Discuss the different types of Leasing in detail and state its advantages.

12. Explain the various factors affecting Working Capital requirement of a company.

13. A Project requires 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.

14. VYA 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 data:-

Purchase of computer:

Cost 40, 00,000

Annual maintenance Rs 50,000 is to be paid in advance for every year.

The life of the computer 10 years, depreciation 15% p.a on WDV, salvage value Rs 4, 00,000

Leasing of computer:

Initial lease payment Rs 4, 00,000/-

Lease rent Rs 7, 00,000 p.a. payable in advance each year for 10 years.

Cost of capital is 12%. Assuming there is no tax.

Should the company buy in lease the computer?

15. A 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 finance expression programme and as identify. Four options for raising funds

Issued Equity shares of Rs.100 each

Issued 1,000 Equity shares of Rs.100 each and 2,000, 8% Preference shares of Rs.100 each.

Borrow of Rs.3,00,000 at 10% interest p.a.

Issued 1,000 Equity shares of Rs.100 each and Rs.2,00,000, 10% Debentures.

The company has EBIT of Rs.1,50,000 of its expansion. Tax ratio is 50%.

Suggest the source in which funds should be raised.

16. Calculate the value of an equity shares of company X Ltd. and Y Ltd. from the following particulars by applying Walters formula when dividend payment ratio (dividend payout ratio) are (a) 50%, (b)75% and (c) 25%.

		X Ltd.	**Y Ltd.**	**Z Ltd.**
r	=	15%	12%	10%
Ke	=	10%	10%	10%
E	=	Rs.10	Rs.12	Rs. 8

17. From the following details calculate leverages and interpret the results.

Particulars	**A**	**B**	**C**
Output(units)	60,000	15,000	1,00,000
Selling price per unit(Rs)	1	3	.50
Fixed cost(Rs)	7,000	14,000	15,000
Variable cost per unit(Rs)	.20	1.50	.02
Interest(Rs)	4,000	8,000	10,000
Preference dividend	-	-	5,000
Tax rate	50%	50%	50%

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

18. A company has machine which has been in operating 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 proposed 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	2000	2000
Selling price per unit	10	10
Output per hour	15 units	30 units
Material per unit	Rs. 2	2
Labour per hour	Rs. 20	40
Other expenses p.a.	11,000	11,000
Working capital	25,000	40,000

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

19. A Ltd. wishes to raise an additional finance of Rs.10 lakhs to meet 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. X ltd has to make a choice between debt issue and equity issue for its expansion programme and its current position is as follows,

The capital structure consist of 5% Debentures Rs. 20,000: Equity 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.

21. A ltd sells its product at a gross profit of 20%on sales. The following data relates to the year ended 31.3.98:

	Rs.
Sales at (3months credit)	40,00,000
Raw Material 1 month credit	12,00,000
Wages Paid 15 days arrears	9,60,000
Manufacturing expenses I month arrear	1200000
Administration expenses paid I month arrear	4,80,000
Sales promotion expenses paid half yearly in advance	200,000

The company maintains 2 months stock of Raw materials, 1.5 months stock of finished goods, and a cash balance of Rs. 1,00,000. Assuming a 10% margin is required calculate the level of working capital.

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