**ST. JOSEPH’S UNIVERSITY BENGALURU -27**

Registration Number:

Date & Session

**MCOM – IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May/June 2024)**

**MCODEF0320 – Strategic Financial Management**

**(For current batch only)**

**Time: 2 Hours Max Marks: 50**

**This paper contains 3 printed pages and 3 parts**

**PART-A**

**Answer any 2 of the following. Each question carries 5 marks. (2 X 5 = 10)**

1. Consider 2 firms U and L, similar in all respects except their capital structure. Compute the missing values

|  |  |  |
| --- | --- | --- |
|  | U | L |
| EBIT | ₹ 1,50,000 | ₹ 1,50,000 |
| Interest | - | ₹ 60,000 |
| Cost of equity | 15% | 16% |
| Market value of equity | ? | ? |
| Cost of Debt | - | 12% |
| Market value of Debt | - | ? |
| Market value of firm | ? | ? |
| Average cost of capital | ? | ? |

1. Describe the factors in projecting financial requirements.
2. Explain the reasons for merger.

**PART-B**

**Answer any 2 of the following. Each question carries 15 marks. (2 X 15 = 30)**

1. Elucidate the tools available for developing an effective capital structure
2. A new plant entails an initial investment of ₹ 3,00,000 and ₹ 2,50,000 towards fixed assets and the balance toward net working capital. The plant has an economic life of 14 years. At the end of 14 years, fixed assets will fetch nothing .The plant is expected to produce a NOPAT of ₹ 21,080 each year. The cost of capital is 10%. It will cost ₹ 2,50,000 to replace fixed assets. Assuming that the actual performance is in line with forecast performance, find ROCE, ROGI, CFROI, CVA and EVA for years 1, 6 and 12. (Given FVIFA for 14 years at 10% is 27.975).
3. Given below is the Balance sheet of Y ltd. as on 31/Mar/2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **₹ Lakhs** | **Assets** | **₹ Lakhs** |
| Share capital (shares of ₹ 10)  Reserves and surplus  Creditors | 100  90  30  220 | Land & Buildings  Plant & Machinery  Investments  Stock  Debtors  Cash & Bank | 90  80  10  20  15  5  220 |

You are required to work out the value of business by “Goodwill method” from the following information:

1. Profit for the current year Rs. 64 lakhs include Rs. 4 lakhs extraordinary expenses and Rs. 1 lakh income from investments of surplus funds; such surplus funds are unlikely to recur.
2. In subsequent years, additional advertisement expenses of Rs. 5 lakhs are expected to be incurred each year.
3. Market value of Land and Building and Plant and Machinery have been ascertained at Rs. 96 lakhs and Rs. 100 lakhs respectively. This will entail additional depreciation of Rs. 6 lakhs each year.
4. Effective Income-tax rate is 30%.
5. The capitalisation rate applicable to similar business is 15%.

It has been agreed that 5 year’s purchase of super profit shall be taken as value of goodwill for the purpose of the deal.

**PART-C**

**Answer the following compulsory question. The question carries 10 marks. (1X10 = 10)**

1. a. Elaborate the reasons on why a company buyback its shares. (4)

b. Calculate depreciation charge and capital charge under SLM and Sinking Fund method for an equipment that costs ₹ 1,00,000 and has economic life of 5 years, if cost of capital is 15% with no salvage value. (Annuity value for 5 years at 15% = 3.352) (3+3)