22CCP103N/ 22CCP103

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

MCom(CA) DEGREE EXAMINATION MAY 2024
(First Semester)

Branch – **COMMERCE WITH COMPUTER APPLICATIONS**

STRATEGIC FINANCIAL MANAGEMENT

Time: Three Hours Maximum: 75 Marks

SECTION-A (10 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (10 × 1 = 10)

Module No.	Question No.	Question	K Level	CO
1	1	Which the basic objective of financial management (i) Maximisation of profit (ii) Maximisation of shareholders wealth (iii) Ensuring financial discipline in the concern (iv) None of the above.	K1	CO1
	2	Show the kind of ratio is more rigorous test of the solvency position of a business. (i) Debt service coverage ratio (ii) Interest coverage ratio (iii) Current ratio (iv) Stock turnover ratio	K2	CO1
2	3	What are the types of preference shares? (i) 2 (ii) 3 (iii) 4 (iv) 5	K1	CO2
	4	Outline another name of financial leverage. (i) Operating leverage (ii) Combined leverage (iii) Trading on equity (iv) Cost of capital	K2	CO2
3	5	Find out the best method of evaluating long term investment proposals. (i) Payback (ii) IRR (iii) Index (iv) NPV	K1	CO3
	6	Show the method of financing involves high risk-return spectrum. (i) Venture capital (ii) Cost of Capital (iii) Capital budgeting (iv) Capital structure	K2	CO3
4	7	What is the difference between current assets and current liabilities? (i) Cash (ii) Receivable (iii) Working capital (iv) Inventory	K1	CO4
	8	Outline the technique is widely-used to identify various items of inventory for the purposes of inventory control. (i) ABC system (ii) EOQ system (iii) VED system (iv) Perpetual inventory	K2	CO4
5	9	List out the types of merger. (i) 2 (ii) 3 (iii) 4 (iv) 5	K1	CO5
	10	Show the name of the policy involves the decision to pay out earnings or to retain them for reinvestment in the firm (i) Dividend policy (ii) Acquisition (iii) Merger (iv) Restructuring	K2	CO5

SECTION - B (35 Marks)

Answer **ALL** questions

ALL questions carry **EQUAL** Marks (5 × 7 = 35)

<table>
<tr><th>Module No.</th><th>Question No.</th><th>Question</th><th>K Level</th><th>CO</th></tr>
<tr><td rowspan="3">1</td><td>11.a.</td><td>Identify the importance of strategic financial management.</td><td rowspan="3">K3</td><td rowspan="3">CO1</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>11.b.</td><td>B Raj Ltd sells goods on cash as well as credit (though not on deferred instalment terms). The following particulars are extracted from their books of accounts for the current year-end.
<table>
<tr><th></th><th>Rs.</th></tr>
<tr><td>Total gross sales</td><td>1,00,000</td></tr>
<tr><td>Cash sales (included in above)</td><td>20,000</td></tr>
<tr><td>Sales returns</td><td>7,000</td></tr>
<tr><td>Total debtors at the end</td><td>9,000</td></tr>
<tr><td>Bills receivable</td><td>2,000</td></tr>
<tr><td>Provision for doubtful debts at the end of the year</td><td>1,000</td></tr>
<tr><td>Total creditors at the end</td><td>10,000</td></tr>
</table>
Identify the average collection period</td></tr>
<tr><td rowspan="3">2</td><td>12.a.</td><td>A mining company's iron ore reserves are being depleted, and its cost of recovering a declining quantity of iron ore are rising each year. As a consequence, the company's earnings and dividends are declining, at a rate of 8 per cent per year. If the previous year's dividend was Rs 10 and the required rate of return is 15 per cent, what would be the current price of the equity share of the company?</td><td rowspan="3">K3</td><td rowspan="3">CO2</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>12.b.</td><td>A firm's sales, variable costs and fixed cost amount to Rs 75,00,000, Rs 42,00,000 and Rs 6,00,000 respectively. It has borrowed Rs 45,00,000 at 9 per cent and its equity capital totals Rs 55,00,000.
Develop the operating, financial and combined leverages of the firm.</td></tr>
<tr><td rowspan="3">3</td><td>13.a.</td><td>Discover the methods of evaluation of capital budgeting.</td><td rowspan="3">K4</td><td rowspan="3">CO3</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>13.b.</td><td>An automobile industry is considering investing in a project that costs Rs.6,00,000. The estimated salvage value is zero. The company uses straight line depreciation and proposed project has cash flows before tax as follows;
<table>
<tr><th>Year</th><th>Cash flow before tax Rs.</th></tr>
<tr><td>1</td><td>1,20,000</td></tr>
<tr><td>2</td><td>1,40,000</td></tr>
<tr><td>3</td><td>1,80,000</td></tr>
<tr><td>4</td><td>2,00,000</td></tr>
<tr><td>5</td><td>2,50,000</td></tr>
</table>
Discover payback period.</td></tr>
</table>

Module No.	Question No.	Question	K Level	CO
4	14.a.	Inspect an estimate of working capital requirement from the following information of a trading concern. i. Project annual sales 1,20,000 units ii. Selling price Rs.10 per unit. iii. Percentage of net profit as sales 30% iv. Average credit period allowed to customers – 10 weeks v. Average credit period allowed to suppliers – 5 weeks vii. Average stock holding in terms of sales requirement – 5 weeks. viii. Allow 15% for contingencies.	K4	CO4
		(OR)		
	14.b.	Examine the objectives of cash management.		
5	15.a.	Compare the concept of mergers and acquisition.	K5	CO5
		(OR)		
	15.b.	The EPS of a company is Rs 16. The market capitalisation rate applicable to the company is 12.5 per cent. Retained earnings can be employed to yield a return of 10 per cent. The company is considering a pay-out of 25 per cent, 50 per cent and 75 per cent. Which of these would maximise the wealth of shareholders as per Walter's model?		

SECTION -C (30 Marks)

Answer **ANY THREE** questions

ALL questions carry **EQUAL** Marks (3 × 10 = 30)

Module No.	Question No.	Question	K Level	CO
1	16	Classify the types of ratios.	K4	CO1
2	17	The mechanics of computation of the weighted average cost of capital. (a) A firm's after-tax cost of capital of the specific sources is as follows: Cost of debt 8 per cent Cost of preference shares (including dividend tax) 14 per cent Cost of equity funds 17 per cent (b) The following is the capital structure Sources — Amount Rs. Debt — 3,00,000 Preference capital — 2,00,000 Equity Capital — 5,00,000 Total — 10,00,000 (c) Evaluate the weighted average cost of capital, k0, using book value weights.	K4	CO2

3	18	A firm whose cost of capital is 10% is considering two project X and Y, the details of which are;	K4	CO3

	Project X in Rs.	Project Y in Rs.
Investment	1,00,000	1,00,000
Cash inflow 1st year	20,000	45,000
2nd year	30,000	40,000
3rd year	40,000	30,000
4th year	50,000	10,000
5th year	60,000	8,000
	2,00,000	1,33,000

Discover the net present value at 10%. Use the following discount factor calculating NPV.
The present value of Rs.1 @10%.

Year	1	2	3	4	5
Discount factor	.909	.826	.751	.683	.621

4	19	The board of directors of Nanak Engineering Company Private Ltd requests you to estimate a statement showing the working capital requirements for a level of activity at 1,56,000 units of production. The following information is available for your calculation:	K5	CO4

(A)

	Per unit Rs.
Raw materials	90
Direct labour	40
Overheads	75
Total	205
Profit	60
Selling price	265

(B) (i) Raw materials are in stock, on average, for 1 month.
(ii) Materials are in process, (50 per cent complete) on average for 4 weeks.
(iii) Finished goods are in stock on average for 1 month
(iv) Credit allowed by suppliers is 1 month.
(v) Time lag in payment from debtors is 2 months.
(vi) Average lag in payment of wages is 1.5 weeks.
(vii) Average lag in payment of overheads is 1 month.
(viii) 20 per cent of the output is sold against cash.

Desired minimum cash in hand and in bank, Rs 60,000. It is to be assumed that production is carried on evenly throughout the year; wages and overheads accrue similarly, and a time period of 4 weeks is equivalent to a month

5	20	Evaluate the factors influencing dividend policy	K5	CO5

Z-Z-Z END