

PSG COLLEGE OF ARTS & SCIENCE  
(AUTONOMOUS)

MCom DEGREE EXAMINATION DECEMBER 2023  
(First Semester)

Common to Branches - COMMERCE & 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 is the viable goal of financial management? (i) Profit maximization (ii) Wealth maximization (iii) Sales maximization (iv) Assets maximization	K1	CO1
	2	Mention the ratio which measures the firm ability to cater to the obligations arising out of long term debt. (i) Current ratio (ii) Acid Test ratio (iii) Stock turnover ratio (iv) Solvency ratio	K2	CO1
2	3	What is the discount rate that is used in determining the present value of the estimated future cash proceeds? (i) Working capital ratio (ii) Cost of capital (iii) Dividend (iv) Shareholders wealth	K1	CO2
	4	Identify the kind of leverage has a bearing on fixed costs. (i) Operating leverage (ii) Combined leverage (iii) Trading on equity (iv) Cost of capital	K2	CO2
3	5	Name the method determine the number of years required to recover initial investment outlay. (i) NPV (ii) IRR (iii) PI (iv) Payback method	K1	CO3
	6	Choose the traditional method of appraising capital expenditure proposals. (i) NPV (ii) ARR (iii) Profitability index (iv) IRR	K2	CO3
4	7	What is the difference between the inflow and outflow of funds? (i) Cash (ii) Receivable (iii) Working capital (iv) Inventory	K1	CO4
	8	Find out the model takes into account all motives of holding cash. (i) VED Analysis (ii) ABC model (iii) Orgler's (iv) Baumol model	K2	CO4
5	9	Firm A acquires firm B, MPS of B is Rs. 20 and EPS is Rs.5. For an exchange ratio of 1.5:1, What was the P/E ratio used in acquiring B? (i) 4 (ii) 5 (iii) 6 (iv) 2.67	K1	CO5
	10	Name the form of shares given to existing owners instead of dividend. (i) Preference shares (ii) Bonus shares (iii) Equity shares (iv) Stock	K2	CO5

Cont....

**SECTION - B (35 Marks)**

Answer ALL questions

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

Module No.	Question No.	Question	K Level	CO																														
1	11.a.	Justify the objectives of financial management.	K3	CO1																														
		(OR)																																
	11.b.	A firm has made credit sales of Rs 2,40,000 during the year. The outstanding amount of debtors at the beginning and at the end of the year respectively was Rs 27,500 and Rs 32,500. Calculate for the debtors turnover ratio and debtors collection period.																																
2	12.a.	Discuss the importance of cost of capital.	K3	CO2																														
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	12.b.	The operating and cost data of ABC Ltd are: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>Rs.</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>20,00,000</td> </tr> <tr> <td>Variable costs</td> <td>14,00,000</td> </tr> <tr> <td>Fixed Costs</td> <td>4,00,000 (including 15 % interest on Rs.10,00,000)</td> </tr> </tbody> </table> Construct its operating, financial and combined leverage.				Rs.	Sales	20,00,000	Variable costs	14,00,000	Fixed Costs	4,00,000 (including 15 % interest on Rs.10,00,000)																						
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3	13.a.	Calculate the average rate of return from the following data of two machines, A and B.	K4	CO3																														
		<table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Particulars</th> <th>Machine- A</th> <th>Machine -B</th> </tr> </thead> <tbody> <tr> <td>Cost</td> <td>Rs.56,125</td> <td>Rs.56,125</td> </tr> <tr> <td>Annual estimated income after depreciation and income tax</td> <td></td> <td></td> </tr> <tr> <td>Year</td> <td>1</td> <td>11,375</td> </tr> <tr> <td></td> <td>2</td> <td>9,375</td> </tr> <tr> <td></td> <td>3</td> <td>7,375</td> </tr> <tr> <td></td> <td>4</td> <td>5,375</td> </tr> <tr> <td></td> <td>5</td> <td>3,375</td> </tr> <tr> <td>Estimated life (years)</td> <td>5</td> <td>5</td> </tr> <tr> <td>Estimated Salvage value</td> <td>3,000</td> <td>3,000</td> </tr> </tbody> </table> Depreciation has been charged on straight line basis.			Particulars	Machine- A	Machine -B	Cost	Rs.56,125	Rs.56,125	Annual estimated income after depreciation and income tax			Year	1	11,375		2	9,375		3	7,375		4	5,375		5	3,375	Estimated life (years)	5	5	Estimated Salvage value	3,000	3,000
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	13.b.	Mohan and Co. is considering the purchase of a machine. Two machines X and Y each costing Rs. 50,000 are available. Cash inflows are expected to be as under. Prepare the payback period statement <table border="1" style="margin-left: 20px;"> <thead> <tr> <th>Year</th> <th>Machine X (Rs.)</th> <th>Machine Y (Rs.)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>15,000</td> <td>5,000</td> </tr> <tr> <td>2</td> <td>20,000</td> <td>15,000</td> </tr> <tr> <td>3</td> <td>25,000</td> <td>20,000</td> </tr> <tr> <td>4</td> <td>15,000</td> <td>30,000</td> </tr> <tr> <td>5</td> <td>10,000</td> <td>20,000</td> </tr> </tbody> </table>	Year	Machine X (Rs.)	Machine Y (Rs.)	1	15,000	5,000	2	20,000	15,000	3	25,000	20,000	4	15,000	30,000	5	10,000	20,000														
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4	14.a.	Calculate an estimate of working capital requirement from the following information of a trading concern. i. Projected annual sales 1,00,000 units ii. Selling price Rs.8 per unit iii. Percentage of net profit on sales 25 iv. Average credit period allowed to customers – 8 weeks. v. Average credit period allowed to suppliers – 4 weeks. vi. Average stock holding in terms of sales requirement – 12 weeks. vii. Allow 10% for contingences.	K4	CO4																														
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	14.b.	Explain the factors affecting working capital.																																
5	15.a.	Evaluate the advantages of merger.	K5	CO5																														
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	15.b.	The cost of capital and the rate of return on investments of WM Ltd is 10 per cent and 15 per cent respectively. The company has 10 lakh equity shares of Rs 10 each outstanding and its earnings per share is Rs 5. Estimate the value of the firm in the following situations using Walter's model: (i) 100 per cent retention; (ii) 50 per cent retention; and (iii) no retention. Comment on your result.																																

**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	Categorize the scope of financial management.	K4	CO1																														
2	17	<p>From the following information supplied to you, examine the appropriate weighted average cost of capital, relevant for evaluating long-term investment projects of the company:            Cost of equity = 12 %            After-tax cost of long-term debt = 7 %            After-tax cost of short-term loans = 4 %</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Book value Rs.</th> <th>Market value Rs.</th> </tr> </thead> <tbody> <tr> <td>Equity</td> <td>5,00,000</td> <td>7,50,000</td> </tr> <tr> <td>Long term debt</td> <td>4,00,000</td> <td>3,75,000</td> </tr> <tr> <td>Short term debt</td> <td>1,00,000</td> <td>1,00,000</td> </tr> <tr> <td></td> <td>10,00,000</td> <td>12,25,000</td> </tr> </tbody> </table>	Source	Book value Rs.	Market value Rs.	Equity	5,00,000	7,50,000	Long term debt	4,00,000	3,75,000	Short term debt	1,00,000	1,00,000		10,00,000	12,25,000	K4	CO2															
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3	18	<p>The Syntex Co. Ltd. is planning to purchase a machine. Two alternative machines are selected for evaluation each costing Rs.3,00,000. The cash inflow are expected to be as follows;</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Cash inflow Machine X in Rs.</th> <th>Cash inflow Machine Y in Rs.</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>20,000</td> <td>40,000</td> </tr> <tr> <td>2</td> <td>65,000</td> <td>1,10,000</td> </tr> <tr> <td>3</td> <td>90,000</td> <td>1,20,000</td> </tr> <tr> <td>4</td> <td>1,50,000</td> <td>1,40,000</td> </tr> <tr> <td>5</td> <td>1,75,000</td> <td>2,00,000</td> </tr> </tbody> </table> <p>The company's expected rate of return is 10%. Calculate the profitability of two machines by taking the present value at 10%.            The present value of Rs.1 @10%.</p> <table border="1"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Discount factor</td> <td>.909</td> <td>.826</td> <td>.751</td> <td>.683</td> <td>.621</td> </tr> </tbody> </table>	Year	Cash inflow Machine X in Rs.	Cash inflow Machine Y in Rs.	1	20,000	40,000	2	65,000	1,10,000	3	90,000	1,20,000	4	1,50,000	1,40,000	5	1,75,000	2,00,000	Year	1	2	3	4	5	Discount factor	.909	.826	.751	.683	.621	K4	CO3
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4	19	<p>From the following projections of XYZ &amp; Ltd for the next year, you are required to calculate the working capital required by the company.</p> <table border="1"> <thead> <tr> <th></th> <th>Rs</th> </tr> </thead> <tbody> <tr> <td>Annual sales</td> <td>14,40,000</td> </tr> <tr> <td>Cost of production (including depreciation of Rs 1,20,000)</td> <td>12,00,000</td> </tr> <tr> <td>Raw material purchases</td> <td>7,05,000</td> </tr> <tr> <td>Monthly expenditure</td> <td>30,000</td> </tr> <tr> <td>Estimated opening stock of raw materials</td> <td>140,000</td> </tr> <tr> <td>Estimated closing stock of raw materials</td> <td>1,25,000</td> </tr> <tr> <td>Inventory norms</td> <td>Raw materials, 2 months</td> </tr> <tr> <td>Work-in-process</td> <td>1/2 month</td> </tr> <tr> <td>Finished goods</td> <td>1 month</td> </tr> </tbody> </table> <p>The firm enjoys a credit of half-a-month on its purchases and allows onemonth credit on its supplies. On sales orders, the company receives an advance of Rs 15,000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs 35,000.</p>		Rs	Annual sales	14,40,000	Cost of production (including depreciation of Rs 1,20,000)	12,00,000	Raw material purchases	7,05,000	Monthly expenditure	30,000	Estimated opening stock of raw materials	140,000	Estimated closing stock of raw materials	1,25,000	Inventory norms	Raw materials, 2 months	Work-in-process	1/2 month	Finished goods	1 month	K5	CO4										
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5	20	Assess the factors triggering corporate restructuring.	K5	CO5																														