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PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

MCom DEGREE EXAMINATION DECEMBER 2025
(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	The scope of Strategic Financial Management includes a) Profit strategy b) Dividend policy c) Economy d) Social	K1	CO1
	2	A constraint to Strategic Financial Management is a) Marketing b) Regulatory Environment c) Limited Resources d) Gaining ratio	K2	CO1
2	3	The cost of retained earnings is generally considered a) Zero b) Higher than cost of equity c) Lower than cost of debt d) Equal to cost of equity	K1	CO2
	4	EBIT-EPS analysis is used for a) Capital structure decision b) Dividend decision c) Investment decision d) Ratio analysis	K2	CO2
3	5	Capital rationing refers to -------- a) Unlimited funds available for investment b) Restriction on raising additional capital for projects c) Short-term financing method d) Replacement of old assets with new ones	K1	CO3
	6	Venture capital is mainly associated with a) Mature businesses with stable cash flows b) Companies issuing debentures c) Government-owned enterprises only d) Start-ups and high-growth potential firms	K2	CO3
4	7	Seasonal industries generally require more a) Permanent Working Capital b) Temporary Working Capital c) Fixed Capital d) Long-term Debt	K1	CO4
	8	The main objective of receivables management is to a) Increase sales by liberal credit b) Minimize bad debts and collection cost c) Reduce production costs d) Maintain high inventory levels	K2	CO4
5	9	According to Walter's Model, dividend decision is relevant because a) It affects the value of the firm b) Dividend is always preferred to retention c) Dividends have no effect on firm value d) It ignores return on investment	K1	CO5
	10	Which dividend model assumes that dividends are irrelevant? a) Gordon Model b) Walter Model c) Modigliani-Miller Model d) Murthy	K2	CO5

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.	From the following information, calculate a) Current Ratio b) Quick Ratio Current Assests Rs. 1,50,000 Stock Rs. 50,000 Current libilities Rs. 75,000	K1	CO1
		(OR)		
	11.b.	From the following details, find out (a) Current assets (b) Current liabilities (c) Liquid Assets (d) Stock Current ratio: 2.5; Liquid ratio : 1.5 ; Working Capital : Rs.90,000.		

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<table>
<tr><td rowspan="3">2</td><td>12.a.</td><td>Kala Ltd., has issued 12,000 12% Preference shares of Rs.100 each. The shares are redeemable after 10 years at a premium of 10%. Flotation costs are 4%. Calculate the effective cost of redeemable preference share capital.</td><td rowspan="3">K4</td><td rowspan="3">CO2</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>12.b.</td><td>From the information given below, you are asked to determine financial leverage and combined leverage:
(a) Operating leverage = 1.5
(b) Fixed cost Rs.3,00,000
(c) Interest on Rs.25 lakh debt =10%</td></tr>
<tr><td rowspan="3">3</td><td>13.a.</td><td>Classify the advantages and disadvantages of lease financing.</td><td rowspan="3">K3</td><td rowspan="3">CO3</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>13.b.</td><td>Examine the importance for entrepreneurs in Venture Capital.</td></tr>
<tr><td rowspan="3">4</td><td>14.a.</td><td>Evaluate the factors influencing working capital requirements.</td><td rowspan="3">K5</td><td rowspan="3">CO4</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>14.b.</td><td>A company sells goods on cash as well as on credit. The following particulars are extracted from the book of the company:
<table>
<tr><th></th><th>Rs.</th></tr>
<tr><td>Gross sales</td><td>4,00,000</td></tr>
<tr><td>Cash sales</td><td>80,000</td></tr>
<tr><td>Sales return</td><td>28,000</td></tr>
<tr><td>Debtors at the end</td><td>36,000</td></tr>
<tr><td>Bills receivables at the end</td><td>8,000</td></tr>
<tr><td>Provision for doubtful debts</td><td>3,000</td></tr>
</table>
Calculate average collection period.</td></tr>
<tr><td rowspan="3">5</td><td>15.a.</td><td>Explain the advantages of Mergers and Acquisitions.</td><td rowspan="3">K6</td><td rowspan="3">CO5</td></tr>
<tr><td colspan="2">(OR)</td></tr>
<tr><td>15.b.</td><td>The earnings per share of Alexa Ltd. are Rs. 16. The rate of capitalization is 8%. The productivity of retained earnings is 10%. Compute the market price per share if the payout is 0%, 25%, 50%, 75% and 100%. What inference can be drawn from the above exercise?</td></tr>
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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	Describe the importance of strategic financial management.	K2	CO1
2	17	Suriya Ltd has the following capital structure : 4,000 Equity shares of Rs. 100 each Rs.4,00,000 10% Preferences shares 1,00,000 11% Debentures 5,00,000 The current market price of the share is Rs. 102. The company is expected to declare a dividend of Rs. 10 at the end of the current year, with an expected growth rate of 10%. The applicable tax rate is 50%. (i) Find out the cost of equity capital and the WACC, and (ii) Assuming that the company can raise Rs. 3,00,000 12% Debentures, find out the new WACC if (a) dividend rate is increased from 10% to 12%. (b). Growth rate is reduced from 10% to 8% and (c). Market price is reduced to Rs. 98.	K4	CO2
3	18	Examine the Major factors leading to capital rationing.	K3	CO3

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<tr><td>4</td><td>19</td><td>Godrej Company sells goods in the home market and earns a gross profit of 20% on sales. It annual figures are as follows:
<table><tr><th></th><th>Rs.</th></tr><tr><td>Sales</td><td>3,00,000</td></tr><tr><td>Materials used</td><td>1,08,000</td></tr><tr><td>Wages</td><td>96,000</td></tr><tr><td>Manufacturing expenses</td><td>1,20,000</td></tr><tr><td>Administrative expenses</td><td>30,000</td></tr><tr><td>Depreciation</td><td>12,000</td></tr><tr><td>Selling expenses</td><td>18,000</td></tr><tr><td>Income tax payable in two instalments of which one falls in the next year</td><td>30,000</td></tr></table>Additional Information:
a) Credit given by suppliers – 2 Months
b) Credit allowed to customers – 1 month
c) Lag in payment of wages – ½ Month
d) Lag in payment of administrative expenses – 1 month
e) Selling expenses are paid quarterly in advance
f) Raw materials and finished goods are in stock for 1 month.
g) Cash balance estimated to be maintained at Rs.30,000
You are required to prepare a statement of working capital requirements.</td><td>K6</td><td>CO4</td></tr>
<tr><td>5</td><td>20</td><td>RST Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes declaration of a dividend of Rs. 10 per share. The capitalisation rate for the risk class to which the company belongs is 12%. What will be the market price of the share at the end of the year, if (i). no dividend is declared; and (ii) 10% dividend is declared?
Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investment of Rs. 10,00,000 during the period, how many new shares must be issued? Use the MM model.</td><td>K5</td><td>CO5</td></tr>
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