22COP104

PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

MCom DEGREE EXAMINATION MAY 2023
(First Semester)

Branch – **COMMERCE**

STRATEGIC FINANCIAL MANAGEMENT

Time: Three Hours — Maximum: 50 Marks

SECTION-A (5 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (5 x 1 = 5)

1. Traditional theory is related to---------------
   (i) Capital structure
   (ii) Ratio analysis
   (iii) Human efficiency
   (iv) Liquidity

2. Scope of financial management covers ---------------
   (i) Budgeting (ii) Cost of capital
   (iii) Fund flow (iv) All of these

3. Long term finance is required for-------------
   (i) Current assets (ii) Fixed assets
   (iii) Intangible assets (iv) Quality Measurement

4. Working capital is also known as ____________ capital.
   (i) Circulating (ii) Fluctuating
   (iii) Fixed (iv) Going

5. The most appropriate dividend policy is the payment of ____________ dividend per share consent.
   (i) Variable (ii) Constant.
   (iii) Higher (iv) Lower

SECTION - B (15 Marks)
Answer **ALL** Questions
ALL Questions Carry **EQUAL** Marks (5 x 3 = 15)

6 a) Explain the objectives of financial management.

(OR)

b) How do you deal with the following items in a comparative Balance Sheet?

Particulars	31-3-2020 Rs.	31-3-2021 Rs.
Fixed Assets	40,00,000	50,00,000
Current Assets	10,00,000	9,00,000
Share Capital	5,00,000	6,00,000

7 a) What are the significance of cost of capital?

(OR)

b) Kumar Ltd., has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalisation rate (K_0) is 15%.Calculate the total value of the firm and equity capitalisation rate under NOI approach.

Cont...

8. a) What are the different sources of long-term finance?

(OR)

b) The following details relates to two projects X and Y.

		Project X Rs.	Project Y Rs.
Cash outlay:		(20,000)	(20,000)
Cash Inflows:	1 Year	6,000	9,000
	2 Year	7,000	10,000
	3 Year	8,000	11,000

Risk free discount rate is 5%. Project X is less risky as compared to project Y. The management considers risk premium rates at 5% and 10% respectively appropriate for discounting the cash inflows. State which project is better?

9. a) Explain the five steps to managing accounts receivable.

(OR)

b) SGP Ltd., is engaged in customer retaining. You are required to forecast their working capital requirements from the following information.

Projected annual sales	Rs.6,50,000
% of N.P. to cost of sales	25%
Average credit allowed by debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in term of sales requirement)	8 weeks

Add 20% to allow for contingencies.

10. a) What are the most common types of mergers and acquisitions?

(OR)

b) The following information relates to Deepan Ltd.,

Earning per share	= Rs.9
Interest rate of return	= 18%
Cost of capital	= 12%
Payout ratio	= 33.33%

Compute the market price under the Walter's model.

SECTION -C (30 Marks)

Answer any **Three** questions

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

11. From the following particulars pertaining to assets and liabilities of a company calculate (1) Current ratio (2) Liquid ratio (3) Proprietary ratio (4) Debt Equity ratio (5) Capital Gearing ratio

Liabilities	Rs.	Assets	Rs.
5,000 Equity shares of Rs. 100 each	5,00,000	Land & Building	6,00,000
2,000 8% Preference shares of Rs. 100 each	2,00,000	Plant& Machinery	5,00,000
4,000 9% Debentures of Rs.100 each	4,00,000	Stock	2,40,000
Reserves	3,00,000	Debtors	2,00,000
Creditors	1,50,000	Cash & bank	55,000
Bank overdraft	50,000	Pre-paid expenses	5,000
	16,00,000		**16,00,000**

12. Two firms A and B are identical expect in the method of financing. Firm A has no debt while firm B has Rs. 4,00,000, 5% Debentures in financing. Both the firms have a Net Operating Income (EBIT) of Rs. 1,00,000 and equity capitalisation rate of 12%. The corporate tax rate is 40%. Calculate the value of the firms using MM approach.

13. Moon Ltd., is considering the purchase of a new machine. Two alternative investments are available A and B each costing Rs.75,000. The cash inflows are expected to be as follows.

Cash Inflows

Year	Investment A Rs.	Investment B Rs.
1	30,000	40,000
2	30,000	,30,000
3	20,000	20,000
4	10,000	10,000

The company has the expected return on capital of 10% Risk premium rates are 2% and 7% respectively for Investments A and B. Which investment should preferred?

14. Arun Ltd., sells goods on a gross profit of 25%. Depreciation is considered as a part of cost of production. The following are the annual figures given to you.

Sales (2 Months credit)	Rs.18,00,000
Materials consumed (1 Months credit)	4,50,000
Wages paid (1 Month lag in payment)	3,60,000
Cash manufacturing expenses (1 Month lag in payment)	4,80,000
Administrative expenses (1 Month lag in payment)	1,20,000
Sales promotion expenses (paid quarterly in advance)	60,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps Rs.1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis, assuming 15% safety margin.

15. Explain the factors that influence the dividend policy of a firm.

Z-Z-Z END