

QP CODE: 24018599



Reg No : .....

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**M.Com DEGREE (CSS) EXAMINATION, APRIL 2024**

**Fourth Semester**

MASTER OF COMMERCE AND MANAGEMENT

**Core - CM020401 - STRATEGIC FINANCIAL MANAGEMENT**

2020 ADMISSION ONWARDS

DA99AB03

Time: 3 Hours

Weightage: 30

**Part A (Short Answer Questions)**

Answer any **eight** questions.

Weight 1 each.

1. Write a short note on financing decision.
2. What is the relationship between EBIT and EPS?
3. What is hard core working capital?
4. What is a lockbox system? How does it help in cash management?
5. What are the factors that will be considered by a finance manager while taking credit granting decisions?
6. Give four examples of capital budgeting decisions.
7. What is capital rationing?
8. Mention the advantages of Sale-and-lease back as a special lease agreement.
9. Write a short note on EPS.
10. What is the creditors' turnover ratio?

(8×1=8 weightage)

**Part B (Short Essay/Problems)**

Answer any **six** questions.

Weight 2 each.

11. MPL has an expected annual operating income (EBIT) of Rs. 1,00,000. It has an 8 percent debt of Rs. 4,00,000. The equity capitalization rate of the company is 12.5 percent. Calculate the value of MPL according to NI approach.
12. Explain the importance of maintaining different levels of inventory.
13. How is simulation done in capital budgeting?
14. Two mutually exclusive investment projects are being considered. The following information is available:

Project X			Project Y	
Cost(Rs)	6,000		6,000	
Year	Cash inflow(Rs)	Probability	Cash inflow(Rs)	
Probability				
1	4,000	0.2	8,000	0.2
2	8,000	0.6	9,000	0.6
3	12,000	0.2	9,000	0.2



Assuming a cost of capital at 10 percent, advise the selection of the project

The following are the present value factors at 10 percent p.a.

Year	1	2	3	4	5
PV factor @10%	0.9091	0.8265	0.7513	0.6830	0.6209

15. Discuss the advantages of leasing in the view point of lessor.
16. What are the cash flows of lease? Why do you feel that differential cash flows of lease and buy option are appropriate methods of evaluation of lease proposal?
17. What are the ratios to be worked out to study the long-term solvency of a concern?
18. From the following particulars extracted from the books of Ashok & Co. Ltd., compute the following ratios and comment:  
(a) The current ratio, (b) Acid Test Ratio, (c) Stock-Turnover Ratio, (d) Debtors Turnover Ratio, (e) Creditors' Turnover Ratio, and Average Debt Collection period.

	1-1-2022	31-12-2022
Bills Receivable	30,000	60,000
Bills Payable	60,000	30,000
Sundry Debtors	1,20,000	1,50,000
Sundry Creditors	75,000	1,05,000
Stock-in-trade	96,000	1,44,000

Additional information:

(a) On 31-12-2022, there were assets: Building Rs. 2,00,000, Cash Rs. 1,20,000 and Cash at Bank Rs. 96,000.

(b) Cash purchases were Rs. 1,38,000 and Purchases Returns were Rs. 18,000.

(c) Cash sales were Rs. 1,50,000 and Sales returns were Rs. 6,000.

The rate of gross profit was 25 percent on sales and the actual gross profit was Rs. 1,50,000.

(6×2=12 weightage)

### Part C (Essay Type Questions)

Answer any **two** questions.

Weight **5** each.

19. Tirumala Steel Company Ltd. is expecting a net operating income (EBIT) of Rs. 1,00,000. The equity capitalization rate is 12.5 percent. The company has used an 8 percent debt of Rs. 3,00,000. You are required to determine the value of the firm (V) and the cost of capital (K<sub>o</sub>).  
Case 1  
The company is planning to increase debt (leverage) by Rs. 2,00,000 and uses these funds to retire equity capital to that extent. The cost of debt is 10 percent and the cost of equity is 15 percent.  
Case 2  
The company plans to increase the debt by Rs. 2,00,000 by the issue of debentures of the same amount. The cost of debt is 12 percent and the cost of capital is 17 percent.
20. Discuss different types of leverage. How are they related to the risk position of the firm?
21. 'There are two dangerous situations that management should usually avoid in controlling inventories.' Identify the danger points and explain.
22. What are mutually exclusive projects? Explain the conditions when conflicting rankings would be given by the internal rate of return and net present value methods for such projects.

(2×5=10 weightage)