TM243858X

Reg. No :.....

Name :.....

MASTER'S DEGREE (C.S.S) EXAMINATION, NOVEMBER 2024

2023 ADMISSIONS REGULAR

SEMESTER III - CORE COURSE COMMERCE

CO3C11TM20 - Strategic Financial Management

Time : 3 Hours **Maximum Weight : 30**

Part A

I. Answer any Eight questions. Each question carries 1 weight **(8x1=8)**

1. Discuss the advantages and limitations of operating leverage.
2. Discuss the various forms of dividend.
3. Explain the Operating cycle method of working capital.
4. Examine the need and importance of capital budgeting.
5. Name various methods of capital budgeting.
6. Explain the circumstances where leasing is preferred over hire purchase.
7. What are the obligation of lessor and lessee in lease agreements?
8. What is Service lease?
9. What is liquidity ratio and Explain its types.
10. What is Window dressing?

Part B

II. Answer any Six questions. Each question carries 2 weight **(6x2=12)**

11. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs.1,00,000 5 % debentures in its financing. Both the firms have earnings before interest and tax of Rs.25000/- and the equity capitalisation rate is 10%. Assuming the corporation tax of 50% calculate the value of the firm using MM approach.
12. Explain the various tools and techniques of Inventory management.
13. Discuss the dimensions of Receivable management.
14. Critically evaluate sensitivity analysis?
15. Mr. Risky is considering two mutually exclusive projects X and Y. You are required to advise him about the acceptability of the projects from the following information.

	PROJECT A	PROJECT B
Cost of Investment	50,000	50,000
Forecast Cash Inflows p.a. for 5 years		
Optimistic	30,000	40,000
Most Likely	20,000	20,000
Pessimistic	15,000	5,000

The cut off rate is 15%

16. Discuss the various methods of evaluating the leasing proposal.
17. Explain the limitations of ratio analysis.
18. The Capital of Anand Ltd is as follows:

9% Preference Shares of Rs.10 each	Rs. 9,00,000

Equity Shares of Rs.10 each	Rs.24,00,000
	Rs.33,00,000
Profit (after tax @ 60%)	Rs.8,10,000
Depreciation	1,80,000
Equity Dividend paid	20%
Market Price of Equity shares	Rs.40

Calculate :

a) Dividend yield on Equity shares

b) Cover for the preference dividend

c) Cover for the equity dividend

d) Earnings per share

e) Price- Earning ratio

f) Net Cash Flow

Part C

III. Answer any Two questions. Each question carries 5 weight **(2x5=10)**

19. Explain the meaning of the term capital structure and mention the factors affecting capital structure.

20. The following information is available in respect of A Ltd:
    Earnings per share Rs.10/-
    Cost of capital 10%
    Find out the market price of the share under different rates of return, (r) of 8%, 10% and 15% for different payout ratios of 40%, 80% and 100%

21. Axe Ltd. uses inventory turnover as one performance measure to evaluate its producton manager. Currently, its inventory turnover is ten times per year compared with an industry average of four. Average sales are Rs.4,50,000 per year.Variabe costs of inventory have consistently remained at 70% of sales with fixed costs of Rs. 10,000. Carrying costs of inventory (excluding financing costs) are 5% p.a. Sales forces has complained the low inventory levels are resulting in lost saales due to stockouts. Sales manager has made an estimate based on stock-out reports as indicated below:

Inventory policy	Inventory turnover	Sales(Rs'000)
Current	10	450
A	8	500
B	6	540
C	4	565

On the basis of those estimates, assuming a 46% tax rate and an after tax required rate of return of 16% on investment in inventory, what inventory policy would you recommend? Show your calculations.

22. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%

	Project X	Project Y
Initial investment	Rs.20,000	Rs.30,000
Estimated life	5 years	5 years
Scrap value	Rs.1,000	Rs.2,000

The profits before depreciation and after taxes (cash flows) are as follows:

	Year 1 (Rs.)	Year 2 (Rs.)	Year 3 (Rs.)	Year 4 (Rs.)	Year 5 (Rs.)
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000
Present value factor	0.909	0.826	0.751	0.683	0.621