TM2535380

Reg. No :.....

Name :.....

MASTER'S DEGREE (C.S.S) EXAMINATION, OCTOBER 2025

2024 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. Distinguish between Profit maximisation Vs. Wealth maximisation.
3. Explain the concepts of working capital.
4. What is certainty equivalent approach?
5. Define Capital budgeting. What is its practical utility?
6. Explain the essential elements of leasing.
7. What is sale and lease back?
8. What are the obligation of lessor and lessee in lease agreements?
9. What is CAMEL Model?
10. What is Payable turnover ratio?

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 sources of short term working capital finance.
13. Explain the factors determining the working capital requirement.
14. What are the principal methods employed for ascertaining the profitability of a capital expenditure project? Write short notes on any two methods.
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. Difference between Financial and Operating lease.
17. Explain the limitations of ratio analysis.
18. From the following ascertain Return on Shareholder's Fund,Return on equity capital and Earnings per share

Particulars	Rs
Paid up Capital (1,00,000 equity shares of Rs.10 each	10,00,000
2,500, 12% Preference shares of Rs.100 each	2,50,000
1,000 debentures (14%) of Rs.100 each	1,00,000
Mortagage loan @12%	1,50,000
General Reserve	75,000
Share Premium	50,000
Reserve for Contingencies	25,000
Net profit before Interest and Tax	2,74,500
Fictitious Assets	25,000
Tax rate is 20% of Net Profit	

Part C

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

19. Explain financial and operating leverage in detail along with their advantages and disadvantages.

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. A trader whose current sales are Rs. 15 lakhs per annum and average collection period is 30 days wants to pursue a more liberal credit policy to improve sales. A study made by a consutant firm reveals the following information:

Credit policy	Increase in collection	Period Increase in sales (RS)
A	15 days	60,000
B	30 days	90,000
C	45 days	150,000
D	60 days	180,000
E	90 days	2,00,000

The selling price per unit is Rs. 5. Average cost per unit is Rs. 4 and variable cost is Rs. 2.75. The required rate of return on additional investment is 20% Assume 360 days in a year and also assume that there are no bad debts Which of the above policies would you recommend for adoption?

22. A Ltd. has the following two options:

	MACHINE-I	MACHINE-II
Cost of Machine	Rs.4,48,000	1,20,000
Life of Machine	5 years	8 years
Sales	Rs.3,00,000	Rs.3,00,000
COSTS	**Rs.**	**Rs**
Material	1,00,000	1,00,000
Labour	24,000	1,20,000
Variable overheads	48,000	40,000

Compute and compare both investment options under Pay Back Method and Average Rate of Return(ARR) method.