STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2019 – 20 and thereafter)

COURSE CODE: 19CM/PC/SF44

M.Com. DEGREE EXAMINATION- APRIL 2022
COMMERCE
FOURTH SEMESTER

COURSE: MAJOR CORE
COURSE TITLE: STRATEGIC FINANCIAL MANAGEMENT
TIME : 3 HOURS **MAX. MARKS: 100**

Section – A

Answer Any SIX Questions **(6 X 10 = 60)**

1. Define the term financial management. Explain the approaches to financial management.
2. What are the objectives and benefits of Inventory management?
3. Compute:
   a. Ten years from now Mr. John will start receiving a pension of Rs.6,000 a year. The payment will continue for 16 years. How much is the pension worth now, if the rate of interest is 10%.
   b. If an amount of Rs.80,000 is deposited in a fixed deposit for seven years at 10% compound rate of interest, how much one can withdraw each year to leave exactly zero at the end of the seventh year.
   c. A company has issued debentures of Rs.40 lakhs to be repaid after 7 years. How much should the company invest in sinking fund earning 12% in order to be able to repay debentures?
   d. Srikanth Ltd. offers 12% interest on fixed deposits. What is the effective rate of interest if compounding is done a) half –yearly and b) quarterly?

4. You are required to determine the weighted average cost of capital of the K.C Ltd. using Book value weights. The K.C Ltd's present book value capital structure is

Debenture (Rs.100 per debenture)	Rs.8,00,000
Preference shares (Rs.100 per share)	Rs.2,00,000
Equity share (Rs.10 per share)	Rs.10,00,000

   Anticipated external financing opportunities:
   1. Rs.100 per debenture redeemable at par: 20-year maturity,8% coupon rate, 4% flotation cost, sale price Rs.100.
   2. Rs.100 per preference share redeemable at par: 15-year maturity, 10%dividend rate, 5%flotation cost, sale price Rs.100.
   3. Equity share Rs. 2 per share flotation cost, sale price Rs.22

   In addition, the dividend expected on the equity share at the end of the year is Rs 2 per share, the anticipated growth rate in dividend is 5%.The corporate tax rate is 50%.

5. Ramraj ltd. has an equity capital of 6,000 shares of Rs.100 each. The company plan to raise Rs.4,00,000 for expansion and modernization. The following alternatives are under consideration.
   a) Issue of equity shares only.
   b) Issue of equity shares for Rs.2,00,000 plus 10%debt for Rs.2,00,000.
   c) Issue of 10% debt.
   d) Issue of preference shares for Rs.2,00,000 and 10% debt for Rs.2,00,000.

e) The company 's existing earnings before interest and tax are Rs.4,00,000. The rate of corporate tax is50%.Determine the earning per share of each plan.

6. (a) From the following data, compute the operating cycle of a firm:

Credit sales Rs.7,20,000 per annum
Cost of goods produced Rs.5,40,000 per annum
Cost of goods sold Rs.6,30,000 per annum
Cost of raw material consumed Rs.1,80,000 per annum
Average stock of raw material Rs.8,000
Average stock of work in progress Rs.4,500
Average stock of finished goods Rs.17,500
Average debtors Rs.40,000
Creditors payment period is 8 days. Assume a year has 360 working days.

(b) A company is contemplating an issue of new equity shares. The firm's equity shares are currently selling at Rs.150 a share. The historical pattern of dividend payments per share, for the last 6 years is given below:

YEAR	DIVIDEND
1	30.00
2	31.80
3	33.71
4	35.73
5	37.87
6	40.15

The floatation costs are expected to be 3 % of the current selling price of the shares. You are required to determine the Cost of equity capital.

7. Summarised below are the income and expenditure forecasts for the months of March to July, 2020.

Month	Sales Rs.	Purchases Rs.	Wages Rs.
March	60,000	36,000	9,000
April	62,000	38,000	8,000
May	64,000	33,000	10,000
June	58,000	39,000	8,500
July	56,000	39,000	9,500

Prepare a cash budget for 3 months starting on 1May 2020 keeping in view the following information:

- Cash balance as on 1st May 2020 was Rs.8,000.
- Advance tax instalment of Rs.8,000 each are payable in March and June
- Period of credit allowed by suppliers is two months and that allowed to customers is one month.
- Lag in payment of wages is one month.

8. S Ltd. Is considering the purchase of a new machine. Two alternative models are under consideration Machine X and Y. Using the payback period method, you are required to prepare a Statement of profitability and recommend the machine to be purchased.

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	Machine X	Machine Y
Cost of the machine	1,50,000	2,50,000
Savings per annum:		
Scrap	10,000	15,000
Wages	90,000	1,20,000
Additional cost per annum:		
Supervision	12,000	16,000
Maintenance	7,000	11,000
Indirect materials	6,000	8,000

SECTION – B

Answer Any TWO Questions **(2 x 20 = 40)**

9. What is working capital? Discuss the determinants of working capital requirements.
10. What are the various functions of a finance manager?

11. P Ltd. is considering investing in a project requiring a capital outlay of Rs.8,00,000.Forecast for annual net income after depreciation but before tax are as follows:

Year	1	2	3	4	5
Profits(Rs.)	4,00,000	4,00,000	3,20,000	3,20,000	1,60,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. You are required to evaluate the project according to each of the following methods: a) Payback method; b) Rate of return on original investment method; c) Rate of return on average investment method; d) NPV method taking cost of capital as 10%; e) P.I. method.

12. Calculate the amount of working capital required for S Ltd. From the following information :

	Rs. (per unit)
Raw material	160
Direct labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

Raw material is held in stock on an average for one month.
Material is in process on an average for half -a -month
Finished goods are in stock on an average for one month
Credit allowed by suppliers is one month and credit allowed to debtors is two months.
Time lag in payment of wages is 1.5 weeks.
Time lag in payment of overheads is 1 month.
One fourth of the sales are made on cash basis.
Cash in hand and at the bank is expected to be Rs.50,000
Expected level of production amounts to 1,04,000 units for a year of 52 weeks.
You may assume that the production is carried on evenly throughout the year and a time period of four weeks is equivalent to a month.

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