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 2023
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. Explain the discounting technique of adjusting for time value of money.
2. A company was recently formed to manucfacture a new product. It has the following capital structure

	Rs
9% debentures	10,00,000
7% preference shares	4,00,000
Equity shares (48,000 shares)	16,00,000
Retained earnings	10,00,000
	40,00,000

The market price of Equity share is Rs 80. A Dividend of Rs 8 per share is proposed . The compamy has marginal tax rate of 50% and the shareholder's individual tax artae is 25%. compute after tax weighted averge cost of capital of the company.

3. Rajini ltd evalutes two muually exclusive rpojects P and Q . you are required to present your opinion to management for decision making purposes bearing in mind that the management has made the following optimistic , most likely and pessimistic estimates of the annual cash flow related with each of these projects:

	project P Rs	project Q Rs
Intial cash outlay	3,00,000	4,00,000
cash inflow (p.a) pessimistic Most likely optimistic	 60,000 80,000 1,00,000	 0 80,000 1,60,000
Required rate of return	14%	14%
Economic life	10 years	10 years

The present value factor @14% for 10 years is 5.216

4. Explain the payback criterion of Investment decisions. What are its strengths and weaknesses?

5. The annual requirement for a product is 3,000 units . The ordering cost is Rs 100 per order. The cost per unit is Rs 10. The carrying cost per unit is 30%of the unit cost .
   a) find out EOQ
   b) By using better organisational methods , the ordering cost per order is brought down to Rs 80 per order, but the same quantity as determined above ordered . what would be the change in the total inventory cost ?

6. x ltd is carrying on business of purchase and sale of an item . selling price is Rs 80 and purchase price is Rs 60. During Dec 2007 , Jan 2008, Feb 2008 and March 2008 its sale were 300 units , 400 units , 500 units and 600 units respectively . 10% of sales are on cash basis and the balance on one month's credit basis . Its office expenses are Rs 3000 per month . cash balance on 1.1.. 2008was Rs 10,000.At the end of each month , the stock was nil prepare a cash budget for the months of Jan , Feb and March 2008.

7. Details regarding three companies are given below :

Nel ltd	Mel ltd	Gel ltd
r=18%	r=20%	r=8%
k=15%	k=20%	k=10%
E=Rs 30	E=Rs 40	E=20

By using walter's model you are required to
calculate the value of an equity share of each of these companies when dividend payout is
a) 30% b) 60% c) 100%

8. Describe the different types of Dividend policy .

SECTION – B

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

9. The Landers ltd needs Rs 7,00,000 for construction of a new plant . The following three financial plans are feasible :

   i) The company may issue 70,000 equity shares at Rs 10 per share

   ii) The company may issue 35,000 equity shares at Rs 10 per share and 9% 3500 debentures of Rs 100 each
   iii) The company may issue 35,000 equity shares at Rs 10 per share and 9% 3500 preference shares of Rs 100 each

   If the company 's earnings before interest and taxes are Rs 15,000, Rs 25000, Rs 50,000 and Rs 75,000. what are the earnings per share under each of the three financial plans ? which alternative would you recommend and why ? Assume corporate tax is 50%

10. Explain the various methods used for risk factor in capital budgeting decisions

11. Growmore ltd is presently operating at 60% level, producing 36000 units per annum . In view of favourable market conditions it has been decided that from 1.1.92 the company would operate at 90% capacity. The following information are available :

i) Exisiting cost –price structure per unit is given below :

	Rs
Raw materials	4
wages	2
overheads (variable)	2
overheads (fixed)	1
profit	1

ii) It is expected that the cost of raw materials , wage rate , expenses and selling price per unit will remian unchanged in 1992

iii) Raw materials remain instores for 2 months before these are issued to production . These units remain in production process for 1 month

iv) Finished goods remain in godown for 2 months

v) credit allowed to debtors is 2 months . credit allowed by creditors is 3 months

vi) lag in wages ad overhead payments is 1 month .It may be assumed that the wages and overheads accure evenly throughout the production cycle

you are required to : a) prepare profitability statement at 90% capacity level and b) calculate the working capital requiremnts on an estimated basis to sustain the increased production level

12. Enumerate the Modigliani –Miller hypothesis of dividend irrelevance. Does this hypothesis suffer from deficiencies?

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