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| Name: | |  | |
| Enrolment No: | | | |
| <div><div>UPES End Semester Examination, May 2025 Course: Strategic Financial Management Program: Integrated BBA-MBA Course Code: FINC3013</div><div>Semester: VI Time : 03 hrs. Max. Marks: 100</div></div> | | | |
| Instructions: Read instructions carefully. Normal calculation is allowed. 1. Section A – 1-10 questions 2. Section B- - 11- 14 questions 3. Section C - 15-17 questions (Question 17 with internal choice) 4. Section D- 18-19 questions (Question 19 with internal choice) 5. Step marking: write all your steps and formulas with your answers to get maximum marks. | | | |
| SECTION A 10Qx2M=20Marks | | | |
| S. No. | | Marks | CO |
| Q | Statement of question | | |
| 1 | A defining characteristic of strategic financial management is its emphasis on: a) Managing daily cash flows. b) Addressing short-term operational funding requirements. c) Ensuring financial decisions align with the company's overall mission and long-term vision. d) Generating standard financial reports. | 2 | CO1 |
| 2 | What defines a reverse merger? a) A bigger company is purchasing a smaller one. b) The combination of two similarly sized companies. c) A privately held company buying a publicly listed one, thereby becoming public itself d) A company selling a large part of its assets | 2 | CO1 |
| 3. | Who is usually the lessor in a direct lease arrangement? a) The entity that produced the asset b) A financial service company c) The company that will ultimately use the asset d) A governmental body | 2 | CO1 |
| 4 | What is the potential drawback of leasing from the lessee’s viewpoint? a) Less operational flexibility compared to owning the asset b) Reduced initial capital outlay c) Ability to deduct lease payments for tax purposes d) The possibility of keeping the lease off the main balance sheet | 2 | CO1 |

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| 5 | <p>According to the static trade-off theory, companies aim for a target capital structure by weighing:</p> <ul style="list-style-type: none"> a) Current assets against current liabilities b) Short-term debt against long-term debts c) The tax shield advantage against the costs linked to financial distress d) Funding from internal sources against funding from external sources | 2 | CO1 |
| 6 | <p>As per agency cost theory, the ideal capital structure involves balancing the tax advantages of debt against:</p> <ul style="list-style-type: none"> a) The expense associated with equity b) The expense associated with preferred stock c) Expenses stem from conflicts between shareholders and managers, as well as shareholders and lenders d) The implicit cost of using retained earnings | 2 | CO1 |
| 7 | <p>The best capital structure is achieved when:</p> <ul style="list-style-type: none"> a) The cost of capital is maximized b) The Weighted average cost of capital (WACC) is minimized c) The use of debt financing is maximized d) The use of equity financing is minimized | 2 | CO1 |
| 8 | <p>In a finance lease arrangement, the party leases the asset (lessee):</p> <ul style="list-style-type: none"> a) Typically has the right to buy the asset cheaply when the lease ends b) Avoid the risks and benefits associated with owning the asset. c) Can end the lease anytime without facing penalties d) Generally, uses the asset only for a brief duration | 2 | CO1 |
| 9 | <p>Divestiture refers to a corporate strategy whereby a company.</p> <ul style="list-style-type: none"> a) Buying another business b) Combines with another business c) Sells a segment or unit of its operations d) Reorganizes its existing debt | 2 | CO1 |
| 10 | <p>What do the costs associated with financial distress mainly encompass:</p> <ul style="list-style-type: none"> a) Payments made for interest on debt b) Distributions of dividends to stockholders c) Expenses related to bankruptcy and company reorganization d) Cost associated with depreciation | 2 | CO1 |

SECTION B
4Qx5M= 20 Marks

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| 11 | Agency costs in relation to capital structure decisions | 4 | CO2 |
| 12 | The concept of a Sale and Leaseback transaction | 4 | CO2 |
| 13 | The Weighted Average cost of capital (WACC) and why it is important | 4 | CO2 |
| 14 | Explain Cross-Border Mergers and Acquisitions | 4 | CO2 |

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SECTION-C
3Qx10M=30 Marks

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| 15 | Examine the connections between strategic financial management and other business functions like marketing, operations and human resources. Use examples to show how they influence each other. | 10 | CO3 |
| 16 | Compare a direct lease with a sale and lease back deal. Why might a company choose to engage in a sale and lease back transactions ? | 10 | CO3 |
| 17 | <p>Categorize and explain the different forms of mergers and acquisitions, giving an example for each type. Discuss the likely advantage and difficulties linked to each form of business combination.</p> <p style="text-align: center;">Or</p> <p>Detail the Net Income (NI) Approach and the Net Operating Income (NOI) Approach to capital structure</p> | 10 | CO3 |

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| SECTION-D 2Qx15M= 30 Marks |
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| 18 | <p>ABC Ltd. needs ₹10,00,000 for a project and is considering two funding options:</p> <p>1) All equity, or</p> <p>2) ₹6,00,000 debt (10% interest) and ₹4,00,000 equity. Expected EBIT is ₹3,00,000, tax rate is 30%.</p> <p>Equity shares would be 50,000 (option 1) or 20,000 (option 2).</p> <p>Calculate the EPS for both options and determine which is preferable based on EPS.</p> | 15 | CO4 |
| 19 | <p>Kapoor Limited needs a machine for 5 years.</p> <p>Option 1: Lease it for ₹1,20,000 annual rent (paid at year-end), with lessee covering maintenance.</p> <p>Option 2: Buy it for ₹3,43,300 using a 14% loan repaid in 5 equal year-end instalments.</p> <p>The machine depreciates straight-line to zero salvage value.</p> <p>Tax rate is 50%.</p> <p>Advise the company which option is better if lease payments are made (a) at year-end, or (b) in advance.</p> <p style="text-align: center;">Or</p> <p>An Acquirer (Share Price ₹25, 4M Shares, EPS ₹2.5) considers acquiring a Target (Share Price ₹75, 1M Shares, EPS ₹1.5). The offer is at an 8% premium, paid 50% cash and 50% stock. Assume a 30% tax rate, ₹75 lakh transaction fee, and no synergies or debt. Determine if this acquisition will increase or decrease the Acquirer's EPS (i.e., is it accretive or dilutive?).</p> | 15 | CO4 |