CA INTERMEDIATE

SUBJECT- F.M. & S.M.

Test Code – IMP 2406

(Date :)

(Marks - 100)

TOPIC : FULL COURSE **Time allowed : 3 Hours**

PART A

Section - A : MCQ

MULTIPLE CHOICE QUESTIONS :

1. To achieve wealth maximization, the finance manager has to take careful decision in respect of : **(1 MARK)**
   (a) Investment
   (b) Financing
   (c) Dividend
   (d) All the above

2. With reference to 'IFC Masala Bonds', which of the statements given below is / are correct ?

   1. The International Finance Corporation, which offered these bonds, is an arm of the World Bank.

   2. They are rupee – denominated bonds and are a source of debt financing for the public and private sector. **(2 MARKS)**

   (a) 1 only

   (b) 2 only

   (c) Both 1 and 2

   (d) Neither 1 nor 2

3. From the following information, calculate P/E ratio : **(2 MARKS)**

Equity share capital of Rs. 10 each	Rs. 8,00,000
9% Preference share capital of Rs. 10 each	Rs. 3,00,000
Profit (after 35% tax)	Rs. 2,67,000
Depreciation	Rs. 67,000
Market price of equity share	Rs. 48

   (a) 15 times

   (b) 16 times

   (c) 17 times

   (d) 18 times

4. From the following information, calculate combined leverage : **(2 MARKS)**

Sales	Rs. 20,00,000
Variable Cost	40%

Fixed Cost	Rs. 10,00,000
Borrowings	Rs. 10,00,000 @ 8% p.a.

(a) 10 times

(b) 6 times

(c) 1.667 times

(d) 0.10 times

5. The re – investment assumption in the case of the IRR technique assumes that : **(1 MARK)**

   (a) Cash flows can be re – invested at the projects IRR.

   (b) Cash flows can be re – invested at the weighted cost of capital

   (c) Cash flows can be re – invested at the marginal cost of capital

   (d) None of the above

6. Compute EPS according to Graham & Dodd approach from the given information :

   (2 MARKS)

Market price	Rs. 56
Dividend pay – out ratio	60%
Multiplier	2

   (a) Rs. 30

   (b) Rs. 56

   (c) Rs. 28

   (d) Rs. 84

7. Management of all matters related to an organisation's finances is called : **(1 MARK)**

   (a) Cash inflows and outflows

   (b) Allocation of resources

   (c) Financial management

   (d) Finance

8. Which of the following is not a part of Quick Assets ? **(1 MARK)**

   (a) Disposable investments

   (b) Receivables

   (c) Cash and Cash equivalents

   (d) Prepaid expenses

9. The term "Core current assets' was coined by : **(1 MARK)**

   (a) Chore Committee

   (b) Tandon Committee

   (c) Jilani Committee

   (d) None of the above

10. Marketable securities are primarily : **(1 MARK)**

    (a) Short – term debt instruments

    (b) Short – term equity securities

    (c) Long – term debt instruments

    (d) Long – term equity securities

11. When a firm advises its customers to mail their payments to special Post Office collection centers, the system is known as. **(1 MARK)**

    (a) Concentration banking

    (b) Lock Box system

    (c) Playing the float

    (d) None of the above

Question 1 is compulsory.

Answer any two out of three

QUESTION : 1

Answer the following:

(A) PREPARE a working capital estimate to finance an activity level of 52,000 units a year (52 weeks) based on the following data:

Raw Materials – Rs. 400 per unit Direct Wages – Rs. 150 per unit

Overheads (Manufacturing) – Rs. 200 per unit Overheads (Selling & Distribution) - Rs. 100 per unit

Selling Price – Rs. 1,000 per unit,

Raw materials & Finished Goods remain in stock for 4 weeks,

Work in process takes 4 weeks. Debtors are allowed 8 weeks for payment, whereas creditors allow us 4 weeks.

Minimum cash balance expected is Rs. 50,000. Receivables are valued at Selling Price. **(5 MARKS)**

(B) Neel Ltd. has a Sales of Rs. 68,00,000 with a Variable cost Ratio of 60%.

The company has fixed cost of Rs. 16,32,000. The capital of the company comprises of 12% long term debt, Rs. 1,00,000 Preference Shares of Rs. 10 each carrying dividend rate of 10% and 1,50,000 equity shares.

The tax rate applicable for the company is 30%.

At current sales level, DETERMINE the Interest, EPS and amount of debt for the firm, if a 25% decline in Sales will wipe out all the EPS. **(5 MARKS)**

(C) Sunrise Pvt. Ltd. is considering relaxing its present credit policy for accounts receivable and is in the process of evaluating two proposed policies. Currently, the company has annual credit sales of Rs.55 lakhs and accounts receivable turnover ratio of 5 times a year. The current level of loss due to bad debts is Rs. 2,00,000. The company is required to give a return of 15% on the investment in new accounts receivable. The company's variable costs are 75% of the selling price. Given the following information, IDENTIFY which is the better policy?

(Amount in Rs.)

Particulars	Present Policy	Proposed Policy 1	Proposed Policy 2
Annual credit sales	55,00,000	65,00,000	70,00,000
Accounts receivable turnover ratio	5 times	4 times	3 times
Bad debt losses	2,00,000	3,50,000	5,00,000

(5 MARKS)

QUESTION : 2(A)

The annual report of ABC Ltd. provides the following information for the Financial Year 2022-23:

Particulars	
Net Profit	Rs. 78 lakhs
Outstanding 15% preference shares	120 lakhs
No. of equity shares	6 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

CALCULATE price per share using Gordon's Model when dividend pay-out is

(i) 30%;

(ii) 50%;

(iii) 100%.

(5 MARKS)

QUESTION : 2(B)

Xylo Ltd. is considering two alternative financing plans as follows :

Particulars	Plan – A (Rs.)	Plan – B (Rs.)
Equity shares of Rs. 10 each	8,00,000	8,00,000
Preference Shares of Rs. 100 each	-	4,00,000
12% Debentures	4,00,000	-
	12,00,000	12,00,000

The indifference point between the plans is Rs. 4,80,000. Corporate tax rate is 30%. CALCULATE the rate of dividend on preference shares.

(5 MARKS)

QUESTION : 3

The financial advisor of Galaxy Ltd is confronted with following two alternative financing plans for raising Rs. 10 lakhs that is needed for plant expansion and modernization

Alternative I: Issue 80% of funds with 14% Debenture [Face value (FV) Rs. 100] at par and redeem at a premium of 10% after 10 years and balance by issuing equity shares at 33 1/3 % premium.

Alternative II: Raise 10% of funds required by issuing 8% Irredeemable Debentures [Face value (FV) Rs. 100] at par and the remaining by issuing equity shares at current market price of Rs.125. Currently, the firm has an Earnings per share (EPS) of Rs. 21. The modernization and expansion program is expected to increase the firm's Earnings before Interest and Taxation (EBIT) by Rs. 2,00,000 annually.

The firm's condensed Balance Sheet for the current year is given below:

Balance Sheet as on 31.3.2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Current Liabilities	5,00,000	Current Assets	16,00,000
10% Long Term Loan	15,00,000	Plant & Equipment	34,00,000
Reserves & Surplus	10,00,000		
Equity Share Capital (FV: Rs. 100 each)	20,00,000		
TOTAL	**50,00,000**	**TOTAL**	**50,00,000**

However, the finance advisor is concerned about the effect that issuing of debt might have on the firm. The average debt ratio for firms in industry is 35%.He believes if this ratio is exceeded, the P/E ratio of the company will be 7 because of the potentially greater risk.

If the firm increases its equity capital by more than 10 %, he expects the P/E ratio of the company will increase to 8.5 irrespective of the debt ratio.

Assume Tax Rate of 25%. Assume target dividend pay-out under each alternative to be 60% for the next year and growth rate to be 10% for the purpose of calculating Cost of Equity

SUGGEST with reason which alternative is better on the basis of each of the below given criteria:

(i) Earnings per share (EPS) & Market Price per share (MPS)

(ii) Financial Leverage

(iii) Weighted Average Cost of Capital & Marginal Cost of Capital (using Book Value weights)

(10 MARKS)

QUESTION : 4

The following data relates to two companies belonging to the same risk class :

Particulars	A Ltd.	B Ltd.
Expected Net Operating Income	Rs. 18,00,000	Rs. 18,00,000

12% Debt	Rs. 54,00,000	-
Equity Capitalization Rate	-	18

Required :

(a) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming no taxes as per M.M. Approach.

(b) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming 40% taxes as per M.M. Approach.

(10 MARKS)

PART B

Section - A : MCQ

MULTIPLE CHOICE QUESTIONS :

1. Read the following three statements : **(2 MARKS)**

   (i) Strategies have short – range implications.

   (ii) Strategies are action oriented

   (iii) Strategies are rigidly defined.

   From the combinations given below select an alternative that represents statements that are true :

   (a) (i) and (ii)

   (b) (i) and (iii)

   (c) (ii) and (iii)

   (d) (i), (ii) and (iii)

2. The sustainability of competitive advantage and a firm's ability to earn profits from its competitive advantage depends upon : **(2 MARKS)**

   (a) Durability, reliability, transferability, approximately

   (b) Appropriability, durability, transferability, imitability

   (c) Transferability, imitability, reliability, approximately

   (d) Imitability, durability, reliability, appropriability

3. The emphasis on product design is very high, the intensity of competition is low, and the market growth rate is low in the ____ stage of the industry life cycle. **(2 MARKS)**

   (a) Maturity

   (b) Introduction

   (c) Growth

   (d) Decline

4. Corporate strategy includes : **(2 MARKS)**

   (i) expansion and growth, diversification, takeovers and mergers

   (ii) Vertical and horizontal integration, new investment and divestment areas

   (iii) determination of the business lines

From the combinations given below select a correct alternative :

(a) (i), and (ii)

(b) (i) and (iii)

(c) (ii) and (iii)

(d) (i) (ii) and (iii)

5. SWOT analysis is an evaluation of the organization's ______ strengths and weaknesses and its _____ opportunities and threats. **(2 MARKS)**

(a) External ; internal

(b) Internal ; internal

(c) External; external

(d) Internal ; external

6. Competitive landscape requires the application of – **(1 MARK)**

(a) Competitive advantage

(b) Competitive strategy

(c) Competitive acumen

(d) Competitive intelligence

7. Vertical integration may be beneficial when **(2 MARKS)**

(a) Lower transaction costs and improved coordination are vital and achievable through vertical integration.

(b) Flexibility is reduced, providing a more stationery position in the competitive environment.

(c) Various segregated specializations will be combined.

(d) The minimum efficient scales of two corporations are different.

8. Compliance, Identification and Internalization are the three processes involved in :

(a) Refreezing

(b) Defreezing

(c) Changing behaviour patterns

(d) Breaking down old attitudes **(1 MARK)**

9. An organizational structure with constricted middle level is : **(1 MARK)**

(a) Divisional structure

(b) Network structure

(c) Hour Glass structure

(d) Matrix structure

Question 1 is compulsory.

Answer any two out of three.

Section B

QUESTION : 1(A)

Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assured that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company.

Do you think this is the right approach ? Validate your answer with logical reasoning around management levels and decision making.

(5 MARKS)

QUESTION : 1(B)

Explain Porter's five forces model as to how businesses can deal with the competition.

(5 MARKS)

QUESTION : 1(C)

In the context of Ansoff's Product – Market Growth Matrix, identify with reasons, the type of growth strategies followed in the following cases :

(i) A leading producer of tooth paste, advises its customers to brush teeth twice a day to keep breath fresh.

(ii) A business giant in hotel industry decides to enter into dairy business.

(iii) One of the India's premier utility vehicles manufacturing company ventures to foray into foreign markets.

(iv) A renowned auto manufacturing company launches ungeared scooters in the market.

(5 MARKS)

QUESTION : 2(A)

'Value for Money' is a leading retail chain, on account of its ability to operate its business at low costs. The retail chain aims to further strengthen its top position in the retail industry. Marshal, the CEO of the retail chain is of the view that to achieve the goals they should focus on lowering the costs of procurement of products.

QUESTION : 2(B)

"Strategy is partly proactive and partly reactive." – Discuss.

(5 MARKS)

QUESTION : 3(A)

Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo ?

(5 MARKS)

QUESTION : 3(B)

Ramesh, is owner of a popular brand of Breads. Yashpal, his son after completing Chartered Accountancy started assisting his father in running of business. The approaches followed by father and son in management were very different while Ramesh preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Yashpal believed in involving employees and generating enthusiasm to inspire people to deliver in the organization.

Discuss the difference in leadership style of father and son.

(5 MARKS)

QUESTION : 4(A)

Suresh Singhania is the owner of an agri – based private company in Sangrur, Punjab, His unit is producing puree, ketchups and sauces. While its products have significant market share in the northern part of country, the sales are on decline in last couple of years. He seeks help of a management expert who advises him to first understand the competitive landscape.

Explain the steps to be followed by Suresh Singhania to understand competitive landscape.

(5 MARKS)

QUESTION : 4(B)

What is implementation control ? Discuss its basic forms.

(5 MARKS)