Mock Test Paper - Series II: August, 2024

Date of Paper: 23rd August, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE GROUP – II

PAPER – 6A : FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A: FINANCIAL MANAGEMENT

Time Allowed – 3 Hours (Total time for 6A and 6B) Maximum Marks – 50

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*
4. *Working note should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note. However, in answers to Questions in Division A, working notes are not required.*

PART I – Case Scenario based MCQs (15 Marks)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Mathangi Ltd. is a News broadcasting channel having its broadcasting Centre in Chennai. There are total 200 employees in the organisation including top management. As a part of employee benefit expenses, the company serves tea to its employees, which is outsourced from a third-party. The company offers tea three times a day to each of its employees. The third-party charges ₹ 10 for each cup of tea. The company works for 200 days in a year.

Looking at the substantial amount of expenditure on tea, the finance department has proposed to the management an installation of a master tea vending machine from Nirmal Ltd which will cost ₹ 5,00,000 with a useful life of five years. Upon purchasing the machine, the company will have to incur annual maintenance which will require a payment of ₹ 25,000 every year. The machine would require electricity consumption of 500 units p.m. and current incremental cost of electricity for the company is ₹ 24 per unit. Apart from these running costs, the company will have to incur ₹ 8,00,000 for consumables like milk, tea powder, paper cup, sugar etc. The company is in the 25% tax bracket. Straight line method of depreciation is allowed for the purpose of taxation.

Nirmal Ltd sells 100 master tea vending machines. Variable cost is ₹ 4,50,000 per machine and fixed operating cost is ₹ 25,00,000. Capital Structure of Mathangi Ltd and Nirmal Ltd consists of the following –

Particulars	Mathangi Ltd.	Nirmal Ltd.
Equity Share Capital (Face value ₹ 10 each)	40,00,000	40,00,000
Reserves & Surplus	25,00,000	50,00,000
12% Preference Share Capital	12,00,000	Nil
15% Debentures	20,00,000	40,00,000

Risk free rate of return = 5%, Market return = 10%, Beta of the Mathangi Ltd. = 1.9

You are required to answer the following five questions based on the above details:

1. If sales of Nirmal Ltd are up by 10%, impact on its EBIT is
   - (a) 30%
   - (b) 60%
   - (c) 5%
   - (d) 20%
2. Combined leverage of Nirmal Ltd is
   - (a) 1.63
   - (b) 2.63
   - (c) 1.315
   - (d) 2
3. Discount rate that can be applied for making investment decisions of Mathangi Ltd is
   - (a) 12%
   - (b) 13.52%
   - (c) 15%
   - (d) 20%
4. Incremental cash flow after tax per annum attributable to Mathangi Ltd due to investment in the machine is
   - (a) ₹ 2,39,438
   - (b) ₹ 1,98,250
   - (c) ₹ 98,250
   - (d) ₹ 1,31,000
5. Net present value of investment in the machine by Mathangi Ltd is
   - (a) ₹ 6,88,522
   - (b) ₹ 1,88,522
   - (c) ₹ 9,91,250
   - (d) ₹ 4,91,250

(5 x 2 = 10 Marks)

6. Total Assets & Current liabilities of the Vitrag Limited are 50 lakhs & 10 lakhs respectively. ROCE is 15%, measure of business operating risk is at 3.5 & P/V ratio is 70%. Calculate Sales.

(a) 21 lakhs

(b) 30 lakhs

(c) 37.50 lakhs

(d) 40 lakhs **(2 Marks)**

7. A company has issued bonds with a face value of ₹ 100,000 at an annual coupon rate of 8%. The bonds are currently trading at 95% of their face value. What is the approximate cost of debt for the company before taxes.

(a) 9.00%

(b) 7.65%

(c) 8.00%

(d) 8.42% **(2 Marks)**

8. A company is considering changing its capital structure by increasing its debt ratio from 40% to 55%. What is the likely impact on the company's cost of equity, assuming all other factors remain constant?

(a) Cost of equity will be unaffected by debt ratio

(b) Cost of equity will remain unchanged

(c) Cost of equity will decrease

(d) Cost of equity will increase **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

*Question No. **1** is compulsory.*

*Attempt any **two** questions out of the remaining **three** questions.*

1. (a) X Ltd is willing to raise funds for its New Project which requires an investment of ₹ 84 Lakhs. The Company has two options:

Option I: To issue Equity Shares (₹ 10 each) only

Option II: To avail Term Loan at an interest rate of 12%. But in this case, as insisted by the Financing Agencies, the Company will have to maintain a Debt–Equity proportion of 2:1.

The Corporate Tax Rate is 30%. FIND out the point of indifference for the project. **(5 Marks)**

(b) Mr. Anand is thinking of buying a Share at ₹ 500 whose Face Value per share is ₹ 100. He is expecting a bonus at the ratio 1 : 5 at the end of the fourth year. Annual expected dividend is 20% and the same rate is expected to be maintained on the expanded capital base. He intends to sell the Shares at the end of seventh year at an expected price of ₹ 900 each. Incidental Expenses for purchase and sale of Shares are estimated to be 5% of the Market Price. Assuming a Discount rate of 12% per annum, COMPUTE the Net Present Value from the acquisition of the shares. **(5 Marks)**

(c) Paarath Limited had recently repurchased 20,000 equity shares at a premium of 10% to its prevailing market price. The book value per share (after repurchasing) is ₹ 193.20.

Other Details of the company are as follows:

Earnings of the company (before buyback) = ₹ 18,00,000

Current MPS is ₹ 270 with a P/E Ratio of 18.

CALCULATE the Book Value per share of the company before the re-purchase. **(5 Marks)**

2. (a) Sukrut Limited has annual credit sales of ₹ 75,00,000/-. Actual credit terms are 30 days, but its management of receivables has been poor, and the average collection period is about 60 days. Bad debt is 1 per cent of total sales.

A factor has offered to take over the task of debt administration and credit checking, at an annual fee of 1.5 per cent of credit sales.

Sukrut Limited estimates that it would save ₹ 45,000 per year in administration costs as a result. Due to the efficiency of the factor, the average collection period would come back to the original credit offered of 30 days and bad debts would come to 0.5% on recourse basis.

The factor would pay net advance of 80 percent to the company at an annual interest rate of 12 per cent after withholding a reserve of 10%. Sukrut Limited is currently financing its receivables from an overdraft costing 10 per cent per year and will continue to finance the balance fund needed (which is not financed by factor) through the overdraft facility

If occurrence of credit sales is throughout the year, COMPUTE whether the factor's services should be accepted or rejected. Assume 360 days in a year. **(7 Marks)**

(b) Determining the amount to be invested in current assets as working capital is a crucial policy decision for any entity. What FACTORS should a company consider when deciding the level of investment in working capital? **(3 Marks)**

3. (a) Calculate the WACC using the following data by using Market Value weights:

Particulars	**₹**
Equity Shares (₹ 10 per equity share)	15,00,000
Reserves & Surplus	5,00,000
Preference Shares (₹ 100 per preference share)	7,50,000
Debentures (₹ 100 per debenture)	5,50,000

The market prices of these securities are:

Debentures - ₹ 105 per debenture,

Preference shares - ₹115 per preference share

Equity shares - ₹ 27 per equity share

Additional information:

(1) ` 100 FV per debenture redeemable at premium of 10%, 10% coupon rate, 4% floatation costs, 10-year maturity.

(2) ` 100 FV per preference share redeemable at par, 12% coupon rate, 2% floatation cost and 10-year maturity.

(3) Equity shares have ₹ 4.5 floatation cost and market price of 27 per share.

The last dividend paid by the company was ` 2 which is expected to grow at an annual growth rate of 9%. The firm has the practice of paying all earnings as a dividend.

The corporate tax rate is 25%. To calculate the overall cost of debt & preference shares, take the average of their respective costs using YTM & approximation method. **(6 Marks)**

(b) EPL Ltd. has furnished the following information relating to the year ended 31st March 2023 and 31st March, 2024:

	31st March, 2023	31st March, 2024
Share Capital	50,00,000	50,00,000
Reserve and Surplus	20,00,000	25,00,000
Long term loan	30,00,000	30,00,000

- Net profit ratio: 8%
- Gross profit ratio: 20%
- Long-term loan has been used to finance 40% of the fixed assets.
- Stock turnover with respect to cost of goods sold is 4.
- Debtors represent 90 days sales.
- The company holds cash equivalent to 1½ months cost of goods sold.
- Ignore taxation and assume 360 days in a year.

You are required to PREPARE Balance Sheet as on 31st March 2024 in following format:

Liabilities	**(₹)**	**Assets**	**(₹)**
Share Capital	-	Fixed Assets	-
Reserve and Surplus	-	Sundry Debtors	-
Long-term loan	-	Closing Stock	-
Sundry Creditors	-	Cash in hand	-

(4 Marks)

4. (a) The agency problem is one of the key concepts in corporate governance and financial management. On the light of this statement, EXPLAIN agency problem, consequences of agency problem and how to overcome the issue. **(4 Marks)**

(b) Operating leases and financial leases are traditionally the most important types of leases in financial management. However, in recent years, other types of leases have also gained significance due to their unique benefits and applications. IDENTIFY AND EXPLAIN at least four other types of leases that have become increasingly important in modern business practices. **(4 Marks)**

(c) EXPLAIN the Relationship between EBIT-EPS-MPS **(2 Marks)**

OR

(c) EXPLAIN Financial Leverage as a ‘Double edged Sword’ **(2 Marks)**

PAPER 6B: STRATEGIC MANAGEMENT

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises case scenario based multiple choice questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case scenario based MCQs (15 Marks)

Question 1. (Compulsory)

1. (A) Sneha Rao, founder and CEO of DEF Technologies, is renowned for her technological insight and visionary leadership style. She cultivates a culture of collaboration, continuous learning, and innovative problem-solving, encouraging her employees to think outside the box and embrace new challenges. Her exceptional ability to foresee technological trends and navigate complex market dynamics has propelled DEF Technologies to impressive growth over the past decade.

Sneha started DEF Technologies in 2010 as a small software development firm. With a vision to transform DEF Technologies into a leading tech company, she initially focused on developing custom software solutions for local businesses. However, intense competition and limited market demand led to financial difficulties. Undeterred, Sneha pivoted the business towards developing cloud-based solutions, leveraging the growing trend of digital transformation. This strategic shift, along with aggressive marketing, helped DEF Technologies capture a significant market share and become a leader in cloud services, setting new industry standards.

In 2015, Sneha's brother, Raj, joined the company, and together they crafted an ambitious expansion strategy. DEF Technologies entered the global market, partnering with international tech firms to launch a new line of AI-driven cybersecurity solutions. This venture was highly successful, establishing DEF Technologies as a global brand and a key player in the cybersecurity industry.

Raj then led the company's diversification into the healthcare sector with a new brand, MedTech Solutions. Recognizing the potential for technology to revolutionize healthcare, Sneha and Raj focused on developing affordable telemedicine platforms and AI-driven diagnostic tools. Their approach disrupted the market, providing high-quality healthcare solutions at lower costs and gaining widespread trust from healthcare providers and patients alike. MedTech Solutions experienced rapid growth, especially during the COVID-19 pandemic, as demand for remote healthcare services surged.

At the beginning of 2023, DEF Technologies launched another new business, GreenTech Innovations, to address environmental challenges through technology. DEF Technologies continues to explore new opportunities and ventures to stay at the forefront of the tech industry.

Based on the above Case Scenario, answer the Multiple-Choice Questions.

(i) Sneha Rao's vision to transform DEF Technologies into a leading tech company illustrates which type of strategic intent?

(a) Goal

(b) Mission

(c) Vision

(d) Objective **(2 Marks)**

(ii) Sneha's leadership style, which promotes collaboration, continuous learning, and innovative problem-solving, can best be described as:

(a) Transactional leadership

(b) Transformational leadership

(c) Autocratic leadership

(d) Laissez-faire leadership **(2 Marks)**

(iii) When DEF Technologies expanded into the global market with AI-driven cybersecurity solutions, which of Porter's Five Forces was most likely mitigated by forming partnerships with international tech firms?

(a) Threat of Substitute Products or Services

(b) Bargaining Power of Suppliers

(c) Threat of New Entrants

(d) Intense Rivalry Among Existing Competitors **(2 Marks)**

(iv) By entering the global market and launching AI-driven cybersecurity solutions, DEF Technologies pursued which expansion strategy from Ansoff's Product-Market Growth Matrix?

(a) Diversification

(b) Market Penetration

(c) Product Development

(d) Market Development **(2 Marks)**

(v) MedTech Solutions' focus on developing affordable telemedicine platforms and AI-driven diagnostic tools reflects which of the following competitive strategies?

(a) Differentiation strategy

(b) Cost leadership strategy

(c) Best-cost provider strategy

(d) Focus Strategy **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) A traditional desi ghee company modernized its production and introduced pro-biotic desi ghee, facing initial market doubts. Aggressive marketing campaigns highlighted its benefits, gaining acceptance. During which stage of the product life cycle did the desi ghee company face doubts but gained acceptance through aggressive marketing campaigns?

(a) Introduction stage

(b) Growth stage

(c) Maturity stage

(d) Decline stage **(2 Marks)**

(ii) ValueMart is a discount retail chain that targets budget-conscious consumers by offering a wide range of products at the lowest possible prices. The company achieves this by sourcing goods in bulk, negotiating lower prices with suppliers, and maintaining lean operations. ValueMart's goal is to dominate the market by attracting price-sensitive customers from competitors. Which of Michael Porter's Generic Strategies is ValueMart primarily employing?

(a) Differentiation

(b) Focused Cost Leadership

(c) Cost Leadership

(d) Focused Differentiation **(2 Marks)**

(iii) A women's clothing brand recognized new opportunities and researched emerging trends and consumer preferences. They introduced a new clothing line, received positive feedback from initial trials, and grew through strategic partnerships and targeted advertising. What strategic choice best describes this approach?

(a) Product Development

(b) Market Development

(c) Market Penetration

(d) Diversification **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

*Question No. **1** is compulsory.*

*Attempt any **two** questions out of the remaining **three** questions.*

1. (a) *TechNova,* a leading software development firm known for its cutting-edge operating systems, is developing a groundbreaking new platform. *ElectroWave,* an emerging player in the electronics and hardware industry, specializes in manufacturing advanced devices. *TechNova* and *ElectroWave* have decided to join forces to design innovative laptops

and smartphones, aiming to tap into new markets and broaden their business horizons. What kind of external growth strategy is being considered by *TechNova* and *ElectroWave*? **(5 Marks)**

(b) Vikram Patel owns a chain of ten bookstores across the Mumbai region. Three of these stores were launched in the past two years. He has always believed in strategic management and enjoyed robust sales of books, magazines, and educational materials until about five years ago. However, with the increasing preference for online shopping, the sales at his physical stores have declined by approximately sixty percent over the last five years. Analyze Vikram Patel's current position in light of the limitations of strategic management. **(5 Marks)**

(c) Orion Tech Solutions Pvt. Ltd. is renowned for its ability to launch groundbreaking software products. Despite the relaxed and casual work environment at Orion, there is a strong commitment to meeting deadlines. Employees at Orion believe in the "work hard, play hard" ethic. The company has shifted from a formal, hierarchical structure to a more results-oriented approach. Employees are deeply committed to the company's strategies and work diligently to achieve them. They safeguard innovations and maintain strict confidentiality and secrecy in their operations. Their work culture is closely aligned with the organization's values, practices, and norms. What aspects of an organization are being discussed? Explain. **(5 Marks)**

2. (a) Analyze the role of Key Success Factors (KSFs) in determining competitive success within an industry. **(5 Marks)**

(b) What are distribution channels, and why is analyzing them crucial for business expansion? Describe the three main types of channels explaining their roles in ensuring products reach customers efficiently and with the necessary support. **(5 Marks)**

3. (a) What is a strategic vision, and what are the essential components that make it an effective tool for guiding an organization's future? **(5 Marks)**

(b) Which strategy is implemented by redefining the business, by enlarging its scope of business and substantially increasing investment in the business? Explain the major reasons for adopting this strategy. **(5 Marks)**

4. (a) Describe the principal aspects of strategy-execution process, which are included in most situations. **(5 Marks)**

(b) How does the PESTLE framework assist in analyzing the macro-environment?

OR

A manufacturing company is in direct competition with fifteen companies at the national level. The head of marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques. **(5 Marks)**