**Mock Test Paper - Series I: March, 2024**

**Date of Paper: 16 March, 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.***

1. NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

   With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are : (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

   Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

   You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

I. What is average level of receivables of the company?

a. ₹ 53,33,333

b. ₹ 35,55,556

c. ₹ 44,44,444

d. ₹ 71,11,111

II. How much advance factor will pay against receivables?

a. ₹ 31,28,889

b. ₹ 39,11,111

c. ₹ 30,03,733

d. ₹ 46,93,333

III. What is the annual cost of factoring to the company?

a. ₹ 8,83,200

b. ₹ 4,26,667

c. ₹ 5,51,823

d. ₹ 4,00,000

IV. What is the net cost to the company on taking factoring service?

a. ₹ 4,00,000

b. ₹ 4,26,667

c. ₹ 3,50,000

d. ₹ 4,83,200

V. What is the effective cost of factoring on advance received?

a. 16.09%

b. 13.31%

c. 12.78%

d. 15.89% **(5 x 2 = 10 Marks)**

2. Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

Option 1:

| | |
|---|---|
| Equity Shares | 25,000 @ ₹ 100 |

Option 2:

| | |
|---|---|
| Equity Shares | 10,000 @ ₹ 100 |
| 12% Preference Shares | 5,000@ ₹ 100 |
| 10% Debentures | 10,000@ ₹ 100 |

What is the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.

(a) ₹ 2,94,872; ₹ 11.80

(b) ₹ 3,20,513; ₹ 8.33

(c) ₹ 2,94,872; ₹ 7.67

(d) ₹ 3,20513; ₹ 12.82 **(2 Marks)**

3. "If EBIT increases by 6%, net profit increases by 6.9%. If sales increase by 6%, net profit will increase by 24%.

Financial leverage must be -…………"

(a) 1.19

(b) 1.13

(c) 1.12

(d) 1.15 **(2 Marks)**

4. What is the maximum period for which company can accept Public Deposits?

(a) 1 year

(b) 6 months

(c) 3 years

(d) 5 years **(1 Marks)**

## PART II – Descriptive Questions (35 Marks)

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

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

1. (a) The following figures have been extracted from the annual report of Xee Ltd.:

| | |
|---|---|
| Net Profit | ₹ 54 lakhs |
| Outstanding 12% preference shares | ₹ 200 lakhs |
| No. of equity shares | 2 lakhs |
| Return on Investment | 22% |
| Cost of capital i.e. ($K_e$) | 15% |

COMPUTE the approximate dividend pay-out ratio so as to keep the share price at ₹ 120 by using Walter's model?

(Decimal may be taken up to 2 units) **(5 Marks)**

(b) Capital structure (in market-value terms) of AN Ltd is given below:

| Company | Debt | Equity |
|---|---|---|
| AN Ltd. | 50% | 50% |

The borrowing rate for the company is 10% in a no-tax world and capital markets are assumed to be perfect.

Required:

(i) If Mr. R, owns 8% of the equity shares of AN Ltd., DETERMINE his return if the Company has net operating income of ₹ 10,00,000 and the overall capitalization rate of the company ($K_o$) is 20%.

(ii) CALCULATE the implied required rate of return on equity of AN Ltd.

**(5 Marks)**

(c) ANVY Ltd. has furnished the following ratios and information for the year end 31st March, 2023:

| | |
|---|---|
| Equity share capital | ₹ 2,00,000 |
| The relevant ratios of the company are as follows: | |
| Current debt to total debt | 0.50 |
| Total debt to Equity share capital | 0.60 |
| Fixed assets to Equity share capital | 0.70 |
| Total assets turnover | 2.5 Times |
| Inventory turnover | 10 Times |

You are required to PREPARE the Balance Sheet of ANVY Ltd. as on 31st March, 2023. **(5 Marks)**

2. (a) NC Ltd. Is considering purchasing a new machine to increase its production facility. At present, it uses an old machine which can process 5,000 units of TVs per week. NC could replace it with new machine, which is product specific and can produce 15,000 units per week. New machine cost ₹ 100 crores and requires the working capital of ₹ 3 crores, which will be released at the end of 5th year. The new machine is expected to have a salvage value of ₹ 20 crores.

The company expects demand for TVs to be 10,000 units per week. Each TV sells for ₹ 30,000 and has Profit Volume Ratio (PV) of 0.10. The company works for the 56 weeks in the year. Additional fixed costs (excluding depreciation) are estimated to increase by ₹ 10 crores. The company is subject to a 40% tax rate and its after-tax cost of capital is 20%. The relevant rate of depreciation is 25 % for both taxation and accounts. The company uses the WDV method of depreciation. The existing machine will have no scrap value.

You are required to:

ADVISE whether the company should replace the old machine.

(Decimal may be taken up to 2 units) **(8 Marks)**

(b) WRITE a short note on “Cut-off Rate”. **(2 Marks)**

3. (a) Ram Ltd evaluates all its capital projects using discounting rate of 16%. Its capital structure consists of equity share capital, retained earnings, bank term loan and debentures redeemable at par. Rate of interest on bank term loan is 1.4 times that of debenture. Remaining tenure of debenture and bank loan is 4 years and 6 years respectively. Book value of equity share capital, retained earnings and bank loan is ₹ 20,00,000, ₹ 30,00,000 and ₹ 20,00,000 respectively. Debentures which are having book value of ₹ 30,00,000 are currently trading at ₹ 98 per debenture. The ongoing PE multiple for the shares of the company stands at 4.

You are required to:

(i) CALCULATE the rate of interest on bank loan and

(ii) CALCULATE the rate of interest on debentures

Tax rate applicable is 30%. **(8 Marks)**

(b) DISCUSS the dividend-price approach to estimate cost of equity capital.

**(2 Marks)**

4. (a) EXPLAIN the limitations of profit maximization objective of Financial Management. **(4 Marks)**

(b) WHAT are the methods of venture capital financing? **(4 Marks)**

(c) WHAT is 'Optimum Capital Structure'? **(2 Marks)**

**OR**

EXPLAIN the concept of Financial Leverage as 'Trading on Equity'.

**(2 Marks)**

**INTERMEDIATE COURSE: GROUP II**

**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.(A) (Compulsory)**

1. (A) In the fiercely competitive automotive industry, Zing, a promising newcomer, set out on a strategic journey with ambitions of making a substantial impact. Recognizing the significance of a robust distribution network early on, Zing forged partnerships with established dealerships, offering them attractive margins. This strategic move significantly enhanced Zing's reach, with a presence in 80% of the nation's dealerships by 2022, expanding its coverage significantly.

To differentiate themselves from competitors, Zing adopted two key strategies. Firstly, they prioritized product design, investing heavily in aesthetics and incorporating innovative features and environmentally friendly technologies. This focus on design led to their vehicles receiving excellent reviews and achieving an impressive 15% year-on-year growth in sales.

Secondly, Zing implemented switching costs to discourage customers from switching to other brands. Their vehicles featured branded software, making it both expensive and cumbersome for customers to transition to alternative brands. This strategic move effectively protected Zing's market share.

Zing's overarching goal was to position itself as a premium automotive brand, blending luxury with sustainability. However, their execution fell down as they challenged with maintaining consistent quality and service levels, resulting in mixed customer reviews.

Despite their best efforts, Zing's differentiation strategy fell short due to issues with inconsistent quality and service. Negative word-of-mouth and declining customer satisfaction scores tarnished their brand image, leading to stagnating sales. This failure to deliver on their brand promise proved to be a significant setback.

As Zing's reputation suffered from execution failures, securing additional funds for international expansion became challenging. Consequently, they made the difficult decision to postpone their global ambitions for the next five years, focusing instead on stabilizing their finances and rebuilding their brand image.

In summary, Zing's strategic journey illustrates the importance of not only crafting a compelling differentiation strategy but also executing it flawlessly. In the competitive automotive landscape, maintaining consistent quality and service is paramount to sustaining brand loyalty and achieving long-term success.

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

(i) What key strategic approach did Zing use to expand its market presence in the automotive industry?

(a) Product innovation and design

(b) Cost leadership strategy

(c) Entering new international markets

(d) Vertical integration **(2 Marks)**

(ii) How did Zing protect its market share from potential competitors?

(a) Price-cutting strategy

(b) Branded software and switching costs

(c) Aggressive marketing campaigns

(d) International expansion **(2 Marks)**

(iii) Why did Zing's differentiation strategy fall short in the market?

(a) Intense price competition

(b) Poor marketing strategy

(c) Inconsistent quality and service

(d) Lack of international expansion **(2 Marks)**

(iv) Forging partnerships with established dealerships to enhance its distribution network falls under which level of strategy?

(a) Corporate level strategy

(b) Business level strategy

(c) Functional level strategy

(d) Competitive level strategy **(2 Marks)**

(v) How did Zing initially expand its market presence across the nation?

(a) Aggressive marketing campaigns

(b) Developing low-cost vehicles

(c) Partnering with established dealerships

(d) Launching a luxury brand **(2 Marks)**

**(B) Compulsory Application Based Independent MCQs**

(i) TechMex Inc., a leading technology company, offers a diverse portfolio of products ranging from established cash cows to promising question marks. As part of its strategic planning process, the company aims to assess its product portfolio's performance and allocate resources effectively. In which quadrant of the BCG Matrix would TechMex's new innovative product, recently launched in a rapidly growing market, likely fall into?

(a) Cash Cow

(b) Dog

(c) Question Mark

(d) Star **(2 Marks)**

(ii) BlueSky Enterprises, a multinational corporation specializing in renewable energy solutions, is undergoing a strategic transformation to enhance its competitive position in the market. As part of this initiative, the company is reevaluating its organizational structure, processes, and culture. Which aspect of the McKinsey 7S Model is most relevant for BlueSky Enterprises during this strategic transformation?

(a) Strategy

(b) Structure

(c) Systems

(d) Skills **(2 Marks)**

(iii) The threat of substitutes is high when:

(a) There are few substitute products available

(b) Switching costs are low

(c) Suppliers have high bargaining power

(d) There is strong brand loyalty **(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) Swati is the marketing manager at a software company. She is responsible for developing and implementing marketing strategies for the company’s products. Swati leads a team of marketing professionals and works closely with the product development and sales teams to ensure that the company's products are effectively promoted in the market. She also analyzes market trends and customer feedback to refine the marketing strategies. Which level is she working at, discuss the roles and responsibilities of this level in organization? **(5 Marks)**

(b) ABC Corp, a multinational consumer electronics company, is planning to expand its operations into a new country. The company's senior management is evaluating the potential risks and opportunities of entering this new market. As part of their analysis, they decide to use the PESTLE framework to assess the external factors that could impact their decision. How can the PESTLE framework help ABC Corp assess the external factors affecting its decision to expand into a new country? **(5 Marks)**

(c) Imagine you are a consultant advising a small manufacturing company embarking on a digital transformation journey. The company's leadership is concerned about managing the change effectively. Using the best practices for managing change in small and medium-sized businesses, outline a strategy to help the company navigate this transformation successfully. **(5 Marks)**

2. (a) Imagine you are a strategic consultant advising a retail company that is facing increasing competition from online retailers. The company is considering several strategic options to improve its market position. Using the concept that strategy is partly proactive and partly reactive, explain how the company can develop a strategic approach to address this challenge. **(5 Marks)**

(b) You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behavior, develop a marketing strategy to promote the new smartphone. **(5 Marks)**

3. (a) A beverage company is launching a new line of energy drinks targeted at health-conscious consumers. The strategic manager wants to study the market position of rival companies in the energy drink segment. Which tool can be used for this analysis, and what is the procedure to implement it effectively? **(5 Marks)**

(b) The CEO of a textile mill believes that his company, currently operating at a loss, can be turned around. Develop an action plan outlining steps the CEO can take to achieve this turnaround. **(5 Marks)**

4. (a) Why Strategic Performance Measures are essential for organizations?

**(5 Marks)**

(b) How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively?

OR

Distinguish between Concentric Diversification and Conglomerate Diversification. **(5 Marks)**

**Mock Test Paper - Series II: April, 2024**

**Date of Paper: 15 April, 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.***

1. Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of ₹ 10,00,000 and since then it has raised funds by IPO taking the total paid up capital to ₹ 1 crore comprising of fully paid-up equity shares of face value ₹ 10 each. The company currently has undistributed reserves of ₹ 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. The current EPS is estimated as Rs 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of ₹ 1,20,00,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4x.

   The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer ₹ 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds.

   The preference shares will have a face value of ₹ 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of

5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed.

The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of ₹ 25,00,000 p.a. Assume marginal tax rate to be 27%.

1. Which of the following is best estimate of cost of equity for Tiago Ltd?

   (a) 12.99%

   (b) 11.99%

   (c) 13.99%

   (d) 14.99%

2. Which of the following is the most accurate measure of issue price of debentures?

   (a) 100

   (b) 96

   (c) 90.58

   (d) 95.88

3. Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)

   (a) 7.64%

   (b) 6.74%

   (c) 4.64%

   (d) 5.78%

4. Calculate the cost of preference shares using approximation method

   (a) 10.23%

   (b) 9.77%

   (c) 12.12%

   (d) 12.22%

5. Which of the following best represents the overall cost of marginal capital to be raised?

   (a) 10.52%

   (b) 17.16%

   (c) 16.17%

   (d) 16.71% **(5 x 2 = 10 Marks)**

2. Ranu & Co. has issued 10% debenture of face value 100 for ₹ 10 lakh. The debenture is expected to be sold at 5% discount. It will also involve floatation costs of ₹ 10 per debenture. The debentures are redeemable at a premium of 10% after 10 years. Calculate the cost of debenture if the tax rate is 30%.

(a) 9.74%

(b) 9.56%

(c) 8.25%

(d) 10.12% **(2 Marks)**

3. Given Data: Sales is ₹ 10,00,000, Break even sales is ₹ 6,00,000.

What is the Degree of operating leverage?

(a) 3

(b) 2

(c) 2.5

(d) 2.2 **(2 Marks)**

4. A project requires an initial investment of ₹ 20,000 and it would give annual cash inflow of ₹ 4,000. The useful life of the project is estimated to be 10 years. What is payback reciprocal/Approximated IRR?

(a) 20%

(b) 15%

(c) 25%

(d) 12% **(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) The below information for Lever Ltd is provided on annual basis:

| | ₹ |
|---|---|
| Sales at 3 months credit | 48,00,000 |
| Materials consumed (suppliers extend 2 months credit) | 12,00,000 |
| Wages paid (one month lag in payment) | 9,60,000 |
| Cash manufacturing expenses (paid on month in arrear) | 12,00,000 |
| Administrative expense (one month lag in payment) | 3,60,000 |
| Sales promotion expense (paid monthly in advance) | 1,20,000 |

The Company sells its products at a gross profit of 20%.

The Company keeps two months stock of raw materials and two months stock of finished goods.

Depreciation is considered as a part of cost of production.

Cash balance is retained at ₹ 1,00,000,

Assuming a 15% margin, COMPUTE the working capital requirements of the Company on cash cost basis. Ignore work-in progress.

**(5 Marks)**

(b) SOC Ltd has 10 lakh equity shares outstanding at the beginning of the accounting year 2024. The existing market price per share is Rs 600. Expected dividend is Rs 40 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 20%.

(i) CALCULATE the market price per share by the end of the year when expected dividends are: (a) declared, and (b) not declared, based on the Miller – Modigliani approach.

(ii) CALCULATE the number of shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs 15 crore; investment budget is Rs 20 crores, when (a) Dividends are declared, and (b) Dividends are not declared.

(iii) PROVE that the market value of the shares at the end of the accounting year will remain unchanged irrespective of whether (a) Dividends are declared, or (ii) Dividends are not declared.

**(5 Marks)**

(c) An existing profitable company, RMC World Ltd. is considering a new project for manufacture of home automation gadget involving a capital expenditure of ₹ 1000 Lakhs and working capital of ₹ 150 Lakhs. The capacity of the plants for an annual production of 3 lakh units and capacity utilization during 5 year life of the project is expected to be as indicated below:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Capacity Utilization (%) | 50 | 65 | 80 | 100 | 100 |

The average price per unit of product is expected to be ₹600 netting a contribution of 60 percent. The annual fixed costs, excluding depreciation, are estimated to be ₹500 Lakhs per annum from the third year onwards. For the first and second year, it would be ₹ 200 lakhs and ₹ 350 lakhs respectively.

Scrap value of the capital asset at the end of 5th year is ₹ 200 Lakhs. Depreciation on capital asset is provided on written down value basis @ 40% p.a. for income tax purpose. The rate of income tax may be taken at 30%. The cost of capital is 12%. At end of the third year an additional investment of ₹ 200 lakhs would be required for working capital. There is no capital gain tax applicable.

COMPUTE the NPV of the project. RMC World Ltd. is about to make a presentation to Secure Venture Capital Firm. Secure Venture Capital Firms will invest in any project if the net addition to shareholder wealth from the project is above ₹ 100 lakhs. **(5 Marks)**

2. (a) From the following PREPARE Income statement of company P and Q.

| | P | Q |
|---|---:|---:|
| No. of Equity Shares | 1,00,000 | 70,000 |
| Financial leverage | 3 : 1 | 4 : 1 |
| Operating Leverage | 2 : 1 | 3 : 1 |
| Variable cost to sales | 67% | 50% |
| Interest | ₹ 5,50,000 | ₹ 6,00,000 |
| Income tax rate | 30% | 30% |

Also CALCULATE EPS of the company. **(4 Marks)**

(b) The GT Limited is willing to expand its business for which it requires an additional finance of ₹ 50,00,000. At present, the capital structure of the company is as under:

- 7,00,000 Equity shares of ₹ 10 each
- 10% Debentures ₹ 63,00,000
- 12% Term loan ₹ 54,00,000
- Retained earnings ₹ 1,30,00,000

At present, the company's EBIT is ₹ 54,00,000. However, the company, after expansion, expects ROI 2% greater than the present ROI, Income Tax Rate is 30%.

Following two options, for getting additional finance, are available-

(a) To raise funds as term loan @ 12%

(b) To raise funds by issuing 1,00,000 equity shares at ₹ 20 per share and balance by issuing 11% debentures at par.

Required:

(i) FIND out the market price of shares, if the P/E ratio is 10.

(ii) RECOMMEND the suitable option of raising funds with reason.

**(6 Marks)**

3. (a) EOC Ltd is a listed company and has presented the below abridged financial statements below.

| **Statement of Profit and Loss** | **₹** | **₹** |
|---|---:|---:|
| **Sales** | | 1,25,00,000 |
| Cost of goods sold | | (76,40,000) |
| **Gross Profit** | | 48,60,000 |

| | | |
|---|---|---|
| Less: Operating Expenses | | |
| Administrative Expenses | 13,20,000 | |
| Selling and Distribution Expenses | 15,90,000 | (29,10,000) |
| Operating Profit | | 19,50,000 |
| Add: Non Operating Income | | 3,28,000 |
| Less: Non Operating Expenses | | (1,27,000) |
| Profit before Interest and taxes | | 21,51,000 |
| Less: Interest | | (4,39,000) |
| Profit before tax | | 17,12,000 |
| Less: Taxes | | (4,28,000) |
| Profit after Tax | | 12,84,000 |

**Balance Sheet**

| **Sources of Funds** | ₹ | ₹ |
|---|---|---|
| **Owned Funds** | | |
| Equity Share Capital | 30,00,000 | |
| Reserves and Surplus | 18,00,000 | 48,00,000 |
| **Borrowed Funds** | | |
| Secured Loan | 10,00,000 | |
| Unsecured Loan | 4,30,000 | 14,30,000 |
| **Total Funds Raised** | | **62,30,000** |
| **Application of Funds** | | |
| **Non-Current Assets** | | |
| Building | 7,50,000 | |
| Machinery | 2,30,000 | |
| Furniture | 7,60,000 | |
| Intangible Assets | 50,000 | 17,90,000 |
| **Current Assets** | | |
| Inventory | 38,60,000 | |
| Receivables | 39,97,000 | |
| ST investments | 3,00,000 | |
| Cash and Bank | 2,30,000 | 83,87,000 |
| **Less: Current Liabilities** | | |
| Creditors | 25,67,000 | |
| ST loans | 13,80,000 | (39,47,000) |
| **Total Funds Employed** | | **62,30,000** |

The company has set certain standards for the upcoming year financial status.

All the ratios are based on closing figures in financial statements.

| | | |
|---|---|---|
| Equity SC to Reserves= | 1 | |
| Net Profit Ratio= | 15% | |
| Gross Profit Ratio= | 50% | |
| Long Term Debt to Equity= | 0.5 | |
| Debtor Turnover= | 100 | Days |
| Creditor Turnover (based on COGS)= | 100 | Days |
| | | |
| Inventory= | 70% | of Opening inventory |

Cash Balance is assumed to remain same for next year

You are required to -

(1) CALCULATE inventory turnover ratio in days for current year

(2) CALCULATE receivables turnover ratio in days for current year

(3) CALCULATE the projected receivables, inventory, payables and long term debt **(8 Marks)**

(b) NAME the various financial instruments dealt with in the International market. **(2 Marks)**

4. (a) WRITE short notes on Inter relationship between investment, financing and dividend decisions. **(4 Marks)**

(b) DISCUSS the liquidity vs. profitability issue in management of working capital. **(4 Marks)**

(c) EXPLAIN the concept of discounted payback period. **(2 Marks)**

**OR**

(c) EXPLAIN the concept of Indian depository receipts. **(2 Marks)**

## INTERMEDIATE COURSE: GROUP II

## 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.(A) (Compulsory)**

1. (A) Café Delight, a thriving restaurant chain known for its unique blend of Australian and Indian culinary experiences, embarked on a remarkable journey from its humble beginnings as a small café in Australia to becoming a renowned player in the Indian restaurant industry. This case study digs into the strategic decisions and market dynamics that fueled Café Delight's growth, highlighting its transition from a single café in Powai, Mumbai, to a flourishing chain with a presence in five cities and over 25 stores. It explores how Café Delight effectively leveraged social media and adapted its pricing strategy to compete with global brands while maintaining a healthy profit margin.

In 2005, Café Delight was founded in Melbourne, Australia, by a passionate entrepreneur with a vision to bring the flavors of Australia and India together. The first café established in Powai, Mumbai, received accolades for its unique menu, blending Australian coffee culture with Indian culinary traditions. Over the course of five years, Café Delight expanded to three stores in Mumbai, driven by exceptional mouth publicity, customer loyalty, and consistent quality.

As the social media landscape evolved, Café Delight recognized the power of online platforms in reaching a wider audience. By effectively utilizing social media and online marketing, Café Delight expanded its presence to five cities across India and established over 25 stores. Customer engagement through social media platforms enabled the brand to create a strong and vibrant community, driving organic growth.

Café Delight's customer-centric approach involved continuously evolving its menu to cater to the changing tastes and dietary preferences of its patrons. By understanding the evolving needs of its customers, Café Delight could offer personalized menu items, seasonal specials, and dietary alternatives. This approach created a sense of loyalty and engagement among customers, strengthening the brand's appeal. Not just customers but High-power, low-interest stakeholders, including regulatory authorities, were addressed with careful compliance and adherence to industry standards. Low-power, high-interest stakeholders, like potential customers and local communities, were engaged through targeted marketing campaigns and community involvement initiatives. This meticulous stakeholder analysis allowed Café Delight to build and maintain strong relationships with each group, effectively managing their influence and impact on the brand.

With its expanding presence and increasing popularity, Café Delight underwent a shift in its pricing strategy. It transitioned from a pocket-friendly pricing model to a skimming strategy, capitalizing on its unique blend of Australian and Indian flavors to position itself as a premium restaurant. Café Delight faced stiff competition from global brands entering the Indian market but maintained a profit margin of approximately 30% through menu engineering and targeted pricing.

In one of its kind, using strategic tools enabled Café Delight to identify and act on opportunities while mitigating threats, contributing to its long-term success in the highly competitive restaurant industry.

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

(i) Café Delight effectively leveraged social media and adapted its pricing strategy as it stepped into which phase of business life cycle of operations?

(a) Introduction Stage

(b) Growth Stage

(c) Maturity Stage

(d) Decline Stage **(2 Marks)**

(ii) What stakeholder group did Café Delight engage through targeted marketing campaigns and community involvement initiatives?

(a) High-power, high-interest stakeholders

(b) Low-power, low-interest stakeholders

(c) Low-power, high-interest stakeholders

(d) High-power, low-interest stakeholders **(2 Marks)**

(iii) What best describes Café Delight's initial expansion strategy when it expanded from one café to three in Mumbai?

(a) Aggressive price reduction

(b) Leveraging customer loyalty and word-of-mouth publicity

(c) Extensive online marketing

(d) Embracing global branding strategies **(2 Marks)**

(iv) At which level of strategic management does Café Delight's transition from a pocket-friendly pricing model to a skimming strategy fit?

(a) Corporate level

(b) Business level

(c) Functional level

(d) Operational level **(2 Marks)**

(v) What type of strategy did Café Delight use to differentiate itself from competitors in the Indian restaurant industry?

(a) Cost leadership strategy

(b) Focused differentiation strategy

(c) Cost focus strategy

(d) Hybrid strategy **(2 Marks)**

**(B) Compulsory Application Based Independent MCQs**

(i) Shamita joined GlobalX Consulting firm as an Analyst in financial fraud mitigation. In her very first assignment she faced an integrity dilemma where her subordinates had missed calling out a potential financial risk which could impact the overall fraud rating of the organisation. She quickly reached out to her seniors who appreciated her diligence and immediately reported the same to senior management. In this scenario which element, soft or hard, is acting in favor of GlobalX?

(a) Strategy

(b) Systems

(c) Shared Value

(d) Staff **(2 Marks)**

(ii) Chocopo, an ice cream company run by Shri Shyam Kumar since 1985, now had its management change to his two daughters, who came in and wanted to experiment with a lot of flavors. They introduced 21 new flavors in a span of 6 months while not losing out of 2 legendary flavors of their dad i.e. Stick Kulfi and Mango Bar. After year 1 of operations, 9 out of the 21 flavors had to be stopped, while 10 flavors were still kept, extending the experimentation. The early sense from market was that they would have to be stopped too, but the sisters decided to extend their timelines. What category as per BCG Matrix would the 10 flavors fall into?

(a) Cash Cow

(b) Dog

(c) Question Mark

(d) Star **(2 Marks)**

(iii) A company negotiating the best prices and quality from its suppliers to add to customer's delight is an example of?

(a) Value Creation by improving primary activity

(b) Value Creation by improving support activity

(c) Competitive Advantage Creation

(d) Stakeholder Management **(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) ABC retail chain regularly monitors consumer trends and supply chain flexibility. The retail chain tracks consumer trends to adjust its offerings, ensuring they meet customer needs. Simultaneously, it maintains a flexible supply chain to respond swiftly to demand fluctuations. This strategy enables ABC retail chain to anticipate market shifts and adapt to them effectively, ensuring its competitiveness and customer satisfaction. Which type of strategy is the retail chain employing?

**(5 Marks)**

(b) A Mumbai-based conglomerate, PQR Ltd., has announced a major restructuring of its business operations. The company has decided to split its business into four separate units: Manufacturing, Retail, Services, and Technology. Each unit will operate as a separate business, with delegated responsibility for day-to-day operations and strategy to the respective unit managers. Identify the organization structure that PQR Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure. **(5 Marks)**

(c) *GreenThrift Inc.,* a sustainable clothing retailer, is experiencing a surge in popularity due to the growing awareness of environmental issues among consumers. The company specializes in selling second-hand clothing and upcycled garments, offering an eco-friendly alternative to traditional fast fashion.

A major concern for GreenThrift Inc. is the emergence of new sustainable fashion brands in the market. These brands focus on using organic and recycled materials, as well as ethical manufacturing practices, which align with the values of environmentally conscious consumers.

Identify and explain that competition from new sustainable fashion brands falls under which category of Porter's Five Forces Model for Competitive Analysis? **(5 Marks)**

2. (a) *"*Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management." Considering this statement, explain major benefits of strategic management. **(5 Marks)**

   (b) *Reshuffle Corp* is a company that manufactures and sells office furniture. They offer a range of products, from desks and chairs to cabinets and shelves. Recently, the company has been facing increased competition from online retailers offering similar products at lower prices.

   Analyzing the characteristics of products in the furniture industry, discuss how *Reshuffle Corp* can differentiate its products to maintain a competitive edge in the market. **(5 Marks)**

3. (a) *EasyLife Corporation,* a leading manufacturer of consumer electronics, is considering launching a new line of smart home devices. As a strategic manager, conduct a SWOT analysis for *EasyLife Corporation* to assess the feasibility and potential success of this new venture. Consider both internal and external factors that could impact the success of the new product line. **(5 Marks)**

   (b) Explain the concept of forward and backward linkages between strategy formulation and implementation in strategic management, using relevant examples. How do these linkages impact the overall strategic decision-making process of an organization? **(5 Marks)**

4. (a) Define Strategic Performance Measures (SPM). Explain various types of strategic performance measures. **(5 Marks)**

   (b) *StarTech Solutions*, an aerospace technology firm, operates in a highly competitive industry. Despite the fierce competition in the aerospace sector, *StarTech* has carved out a niche for itself by focusing on serving unique, high-end clients. Unlike its competitors, *StarTech* has chosen not to diversify its target market and instead specializes in providing cutting-edge solutions to this niche market.

   Identify and explain the strategy adopted by *StarTech Solutions*. Discuss the advantages and disadvantages of this strategy.

   OR

   Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance. **(5 Marks)**

**Mock Test Paper - Series I: July, 2024**

**Date of Paper: 3rd 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.***

Kaivalyabodhi Limited **(KbL)** has completed 35 years of operations in India. It has many subsidiary & associate companies in more than 100 countries. KbL's business s include home and personal care, foods and beverages, and industrial, agricultural and other products. It is one of the largest producers of soaps and detergents in India. The company has grown organically as well as through acquisitions. Over the years, the company has built a diverse portfolio of powerful brands, some being household names.

It is planning to acquire one of its competitors named Prestige Limited, which would enhance the growth of 'KbL'. The consideration amount will be 1.5X of its average Market Capitalization. Prestige limited has 1,30,000 outstanding equity shares and its shares were traded at an average market price of ₹ 45 as on the valuation date. The consideration amount will be paid equally in 5 years where the first installment is to be paid immediately. Prestige Limited has Ko of 15%

KbL will raise the funds required through debt and equity in the ratio of 30:70. The company requires the cost of capital estimates for evaluating its acquisitions, investment decisions and the performance of its businesses.

KbL's share price has grown from ₹ 150 to ₹ 301 in the last 5 years and it will continue to grow at the same rate. KbL pays dividends regularly. The company has recently paid a dividend of ₹ 8. For the calculation of equity, an average of 52 weeks high market price in the last 5 years is to be considered, which is as follows:

| Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 |
|---|---|---|---|---|
| MPS 195 | MPS 210 | MPS 252 | MPS 325 | MPS 280 |

Ke calculated as per growth model holds a weight of 0.6.

The company also wishes to calculate the equity's expectation using CAPM which holds a weight of 0.4. The risk-free rate is assumed as the yield on long-term government bonds that the company regards as about 8%. KbL regards the market-risk premium to be equal to 11 per cent. Its estimation on the Beta is 0.78.

KbL will issue debentures with FV of ₹ 10,500 which is to be amortised equally over the life of 7 years. The company considers the effective rate of interest applicable to an 'AAA' rated company with a markup of 200 basis points as its coupon rate. It thinks that considering the trends over the years, 'AAA' rate is 7.5%.

Ignore taxation. Based on the above details, answer the question 1 to 5:

1. Calculate the cost of equity under both the methods
   (a) 11%, 16%
   (b) 18.65%, 10.34%
   (c) 18.65%, 16.58%
   (d) 16.5%, 9%
2. Calculate the overall cost of equity
   (a) 17.82%
   (b) 17.63%
   (c) 15.37%
   (d) 35.25%
3. Calculate the cost of debt, if the intrinsic value of debenture today is close to ₹ 9,740
   (a) 15%
   (b) 12%
   (c) 9.5%
   (d) 7.5%
4. Calculate the WACC & the amount of purchase consideration
   (a) 18%, ₹ 90,00,000

(b) 15.21%, ₹ 87,75,000

(c) 16.07%, ₹ 87,75,000

(d) 15.94%, ₹ 58,50,000

5. Present Value of Purchase consideration is close to ₹

(a) 58,83,032

(b) 67,65,487

(c) 57,35,680

(d) 66,58,997 **(5 x 2 = 10 Marks)**

6. X ltd has actual Sales of ₹ 20 lakhs and its Break-even sales are at ₹ 15 lakhs. The degree of total risk involved in the company is 6.5. Calculate the % impact on EPS, if EBIT is affected by 12%.

(a) 40%

(b) 78%

(c) 312%

(d) 19.5% **(2 Marks)**

7. Assuming Ke = 11%, Kd = 8% and Ko = 10%, Debt Equity ratio of the company

(a) 2:3

(b) 3:2

(c) 1:2

(d) 2:1 **(2 Marks)**

8. Given:

Earnings available to the equity shareholders ₹ 30 Lakhs,

Cost of equity is 15%,

Debt outstanding ₹ 150 Lakhs

Value of the firm will be –

(a) ₹ 200 Lakhs

(b) ₹ 250 Lakhs

(c) ₹ 350 Lakhs

(d) ₹ 300 Lakhs **(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) You are required to CALCULATE the Total Current Assets of Ananya Limited from the given information:

| | |
|---|---|
| Stock Turnover | = 5 times |
| Sales (All credit) | = ₹ 7,20,000 |
| Gross Profit Ratio | = 25% |
| Current Liabilities | = 2,40,000 |
| Liquidity Ratio | = 1.25 |

Stock at the end is ₹ 30,000 more than stock in the beginning.

**(5 Marks)**

(b) Gitarth Limited has a current debt equity ratio of 3:7. The company is presently considering several alternative investment proposals costing less than ₹ 25 lakhs. The company will always raise the funds required without disturbing its current capital structure ratio.

The cost of raising debt and equity are as follows-

| **Cost of Project** | **Kd** | **Ke** |
|---|---|---|
| Upto 5 lakhs | 10% | 12% |
| Above 5 lakhs & upto 10 lakhs | 12% | 13.5% |
| Above 10 lakhs & upto 20 lakhs | 13% | 15% |
| Above 20 lakhs | 14% | 16% |

Corporate tax rate is 30%, CALCULATE:

i) Cut off rate for two Projects I & Project II whose fund requirements are 15 lakhs & ₹ 26 lakhs respectively.

ii) If a project is expected to give an after-tax return of 13%, determine under what conditions it would be acceptable. **(5 Marks)**

(c) From the following details of X Ltd, PREPARE the Income Statement for the year ended 31st December:

| | |
|---|---|
| Financial Leverage | 2 |
| Interest | ₹ 2,000 |
| Operating Leverage | 3 |
| Variable Cost as a Percentage of Sales | 75% |
| Income Tax Rate | 30% |

**(5 Marks)**

2. (a) The financial statements of Gurunath Ltd is furnished below –

**Balance Sheet as at 31st March**

| | **Particulars as at 31st March** | **Note** | **₹** |
|---|---|---|---|
| **I** | **EQUITY AND LIABILITIES:** | | |
| (1) | Shareholders' Funds: | | 10,00,000 |
| (2) | Non–Current Liabilities: 10% Debt | | 6,00,000 |
| (3) | Current Liabilities | | 1,56,000 |
| | **Total** | | 17,56,000 |
| **II** | **ASSETS** | | |
| (1) | Non–Current Assets | | 16,56,000 |
| (2) | Current Assets – Trade Receivables | | 1,00,000 |
| | **Total** | | 17,56,000 |

**Additional Information:**

1. The existing credit terms are 1/10, net 45 days and average collection period is 30 days. The current bad debts loss is 1.5%. In order to accelerate the collection process further as also to increase sales, the company is contemplating liberalization of its existing credit terms to 2/10, net 45 days.
2. It is expected that sales are likely to increase by 1/3 of existing sales, bad debts increase to 2% of sales and average collection period to decline to 20 days.
3. Credit period allowed by the supplier is 60 days. Generally, operating expenses are paid 2 months in arrears. Total Variable expenses of the company constitute Purchases of stock in trade and operating expenses only.
4. Opportunity cost of investment in receivables is 15%. 50% and 80% of customers in terms of sales revenue are expected to avail cash discount under existing and liberalization scheme respectively. The tax rate is 30%.
5. The Company considers only the relevant or variable costs for calculating the opportunity costs on the funds blocked in receivables. Assume 360 days in a year and 30 days in a month.

Should the company change its credit terms? **(6 Marks)**

(b) The following information is given for QB Ltd.

| | |
|---|---|
| Earnings per share | ₹ 180 |
| Dividend per share | ₹ 45 |
| Cost of capital | 17% |
| Internal Rate of Return on investment | 20% |

CALCULATE the market price per share using -

(a) Gordon's formula

(b) Walter's formula **(4 Marks)**

3. (a) Parmarth Limited is a manufacturer of computers. Owing to recent developments in Artificial Intelligence (AI), it is planning to introduce AI in its computer process. This would result into an estimated annual savings as follows:

(i) Savings of ₹ 3,50,000 in production delays caused by inventory problem.

(ii) Savings in Salaries of 5 employees with an annual pay of ₹ 4,20,000 per annum

(iii) Reduction in Lost sales of ₹ 1,75,000

(iv) Gain due to timely billing is ₹ 3,25,000

The project would result in annual maintenance and operating costs as follows, which are to be paid in advance (at the beginning)

| YEAR | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| COST | 1,80,000 | 2,00,000 | 1,20,000 | 1,10,000 | 1,30,000 |

Furthermore, the new system would need 2 AI specialists' professional drawing salaries of ₹ 6,50,000 per annum per person. The purchase price of the new system for installing AI into computers would involve an outlay of ₹ 21,50,000 and installation cost of ₹ 1,50,000.

75% of the total value for depreciation would be paid in the year of purchase and the balance would be paid at the end of the 1st year. The new system will be sold for ₹ 1,90,000. This is the only asset in the block for Income tax purpose.

The life of the system would be 5 years with the hurdle rate of 12%. Depreciation will be charged at 40% on WDV basis, corporate tax rate is 25% and capital gains tax rate is at 20%.

CALCULATE NPV and advise the management on the acceptability of the proposal. Also calculate ARR & PI. **(8 Marks)**

(b) DISCUSS the parameters of Lintner's Model. **(2 Marks)**

4. (a) DISCUSS the Costs of Availing Trade Credit **(4 Marks)**

(b) Briefly EXPLAIN the following –

i. Fully Hedged Bonds

ii. Medium Term Notes

iii. Floating Rate Notes

iv. Euro Commercial Papers **(4 Marks)**

(c) WHAT is the range of DOL? **(2 Marks)**

**OR**

DISCUSS the role of a chief financial officer. **(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. (A) (Compulsory)**

1. (A) Kriti Pvt. Ltd. has been importing French gourmet cheeses under the brand name of 'Fromage' since 2017. The company was amongst the first in India to introduce innovative unbreakable cheese packaging. Their affiliate, a French company owning Fromage, had entered into a progressive deal, wherein products would be sourced to India via their logistics, and all marketing expenditures would be covered by them. However, customer management and nationwide distribution would be taken care of by Kriti Pvt. Ltd. This required an English-speaking skilled workforce, which has been a constant challenge for the company in India.

The owners of Kriti Pvt. Ltd. have been regular attendees at industry-relevant conclaves, both national and international. Leaders of the company are passionate readers of business magazines. Following that, it was observed that the recent sentiment of the country towards ‘Vocal for Local’ could disrupt their French brand’s marketability. An extraordinary meeting was set up, and the steps ahead were planned.

The outcome of the meeting was to partner with local producers of traditional Indian cheeses in phase one of the change strategy. For this, seven state governments were approached. The team was successful in taking contracts from all the government departments of these seven states and could position themselves fairly in the market. To fund this new investment, they have planned to slowly sell off their French business assets as well as the brand, to probable buyers.

This timely shift is proving to be a game-changer for the company, and the leadership is quite happy with better than before earnings and a much greater response from the customers. They find it easier to operate with domestic producers and vendors, and a sense of patriotism is instilled in the consumers’ minds.

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

(i) Which of the following actions taken by Kriti Pvt. Ltd. is an example of a proactive strategy?

(a) Selling off their French business assets.

(b) Responding to the 'Vocal for Local' sentiment by partnering with local cheese producers.

(c) Managing customer relations and nationwide distribution.

(d) Covering all marketing expenditures for 'Fromage' in India.

**(2 Marks)**

(ii) Which of the following types of strategic control did the owners and leadership of Kriti Pvt. Ltd. deploy that eventually turned out to be one of the most effective strategic decisions for the company?

(a) Premise control

(b) Special alert control

(c) Implementation control

(d) Strategic surveillance **(2 Marks)**

(iii) ‘Vocal for Local’ is a market sentiment that changed customers’ preferences for the majority of products across all industries. Based on that, Kriti Pvt. Ltd. gauged the competition it might face in the coming months and agreed to change its own product. Which of the following forces, as per Michael Porter’s five forces of competitive analysis, is most relevant in this case?

(a) Threat of new entrants

(b) Nature of rivalry in the industry

(c) Threat of substitutes

(d) Bargaining power of the buyer **(2 Marks)**

(iv) Which of the following aspects of value chain analysis was the most challenging for Kriti Pvt. Ltd. at the time of selling the Fromage brand?

(a) Manufacturing

(b) Outsourcing

(c) Customer service

(d) Procurement **(2 Marks)**

(v) To strategically revamp their business, partnerships were done with Indian local producers from seven states, and to fund it, the existing arm of the business was to be sold off. Which of the following strategies has Kriti Pvt. Ltd. opted for?

(a) Turnaround strategy

(b) Divestment strategy

(c) Liquidation strategy

(d) Intensification strategy **(2 Marks)**

(B) **Compulsory Application Based Independent MCQs**

(i) TechWave, a software development firm, aims to gain a competitive edge in the rapidly evolving tech industry. To achieve this, they focus on building their strength in artificial intelligence (AI) and machine learning (ML). TechWave invests heavily in R&D, hires top talent with specialized skills, and forms partnerships with leading AI research institutions. They also provide continuous training for their employees to keep them updated with the latest advancements. By developing these, TechWave can create innovative AI-driven solutions that differentiate them from competitors and attract a growing number of clients seeking cutting-edge technology. What strategy is TechWave using to gain a competitive edge in the tech industry?

(a) Market segmentation

(b) Diversification

(c) Core competency building

(d) Cost leadership **(2 Marks)**

(ii) StreamlineCo is examining its internal capabilities to ensure that employees possess advanced knowledge of emerging technologies crucial for the company's future success. This involves investing in specialized training programs and updating job roles to match the latest industry standards. Which aspect of StreamlineCo is being enhanced through specialized training and updated job roles?

(a) Structure

(b) Systems

(c) Skills

(d) Style **(2 Marks)**

(iii) XYZ Corporation has launched AlphaTech to enter the consumer electronics industry with a focus on offering high-performance devices and innovative features at competitive prices. Which competitive strategy is AlphaTech employing?

(a) Differentiation strategy

(b) Cost leadership strategy

(c) Best-cost provider strategy

(d) Focus strategy **(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) Mr. Arun has been hired as the CEO by ABC Ltd, a pharmaceutical company that has diversified into affordable wellness supplements. The company intends to launch the HealthPlus brand of supplements. ABC wishes to enhance the well-being of people with its products that are beneficial for health and are produced in an environmentally sustainable manner using natural ingredients. Draft a vision and mission statement that may be formulated by Arun. **(5 Marks)**

(b) GreenGardens, a small but growing organic farm, is assessing its business environment to strategically plan for future growth. The farm boasts high-quality, pesticide-free crops, but faces challenges with its limited distribution channels. As the demand for organic products continues to rise, GreenGardens recognizes the potential to broaden its market reach. However, unpredictable weather conditions and competition from larger farms present significant obstacles. To effectively navigate these challenges and opportunities, GreenGardens needs to conduct a comprehensive evaluation. Identify the type of analysis GreenGardens should conduct to strategically plan for its future growth and outline the grid. **(5 Marks)**

(c) FreshDelight, renowned for its organic fruit juices, aims to expand its market presence by identifying emerging markets in countries where organic products are gaining popularity. To achieve this, FreshDelight launches targeted marketing campaigns and partners with local distributors to introduce its juices to these new regions. This strategy involves adapting product packaging and marketing messages to align with local preferences and regulations. By entering these new markets, FreshDelight hopes to increase its customer base and drive sales growth. What strategy is FreshDelight using to expand its market presence? **(5 Marks)**

2. (a) The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO.

**(5 Marks)**

(b) Write a short note on Matrix Structure. **(5 Marks)**

3. (a) "Understanding the competitive landscape is important to build upon a competitive advantage". Explain. **(5 Marks)**

(b) XYZ Corporation operates in a diverse range of industries, including fashion, lifestyle products, furniture, real estate, and electrical goods. The company is seeking to hire a suitable Chief Executive Officer. As the HR consultant for XYZ Corporation, you have been tasked with outlining the activities involved in the role of the Chief Executive Officer. Identify the strategic level associated with this role and list the activities it encompasses. **(5 Marks)**

4. (a) Buyers can exert considerable pressure on business. Do you agree? Discuss. **(5 Marks)**

(b) Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

OR

What factors should organizations consider when choosing strategic performance measures, and why are these factors important?

**(5 Marks)**

**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)**