Mock Test Paper - Series II: December, 2024

Date of Paper: 14th December, 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.

Case Scenario I:

MNP Ltd. is a multinational company having its operations spread mostly in India and neighbouring countries of India. The promotors of the company believed that capital structure of a company must be kept flexible and balanced, where proper mix should always be maintained between debt and equity. Such mix of debt and equity should be reviewed from time to time keeping in mind the changing situation of India and the global scenario.

The capital structure of MNP Ltd. is as under:

9% Debentures	Rs. 2,75,000
11% Preference shares	Rs. 2,25,000
Equity shares (face value: Rs. 10 per share)	Rs. 5,00,000
Total capital of the company	Rs. 10,00,000

The following are some of the additional information provided by MNP Ltd. relating to the above mentioned capital structure.

(i) Rs. 100 per debenture redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is Rs. 105.

(ii) Rs. 100 per preference share redeemable at par has 3% floatation cost and 10 years of maturity. The market price per preference share is Rs. 106.

(iii) Equity share has Rs. 4 floatation cost and market price per share of Rs. 24. The next year expected dividend is Rs. 2 per share with an annual growth of 5%. The firm has a practice of paying all earnings in the form of dividends.

(iv) Corporate Income-tax rate is 35%.

Since the company is a multinational company market value weights are preferred over book value weights when calculating the Weighted Average Cost of Capital (WACC) for several reasons. The company believes that market values reflect the current market perception of a company's financial health and future prospects. This is more relevant for calculating the cost of capital today, as investors base their decisions on current market conditions. Book values, based on historical accounting principles, may not accurately represent the true economic value of the company's capital components. Market values capture the actual cost that a company would incur if it were to raise new capital in the current market. Book values might not reflect the true cost of debt due to factors like changes in interest rates or creditworthiness. Similarly, book value of equity might not reflect the current investor expectations for future dividends and growth. Market values are readily available through stock prices and market interest rates. Obtaining accurate book values, especially for intangible assets, can be a complex and time-consuming process.

On the basis of this information provided above you are required to answer the following MCQs (1 to 5):

1. Calculate the cost of equity and choose the correct answer from the following?

   (a) 14%

   (b) 15%

   (c) 16%

   (d) 17%

2. Calculate the cost of debt and choose the correct answer from the following?

   (a) 6.11%

   (b) 5.48%

   (c) 9%

   (d) 10.55%

3. Calculate the cost of preference shares and choose the correct answer from the following?

   (a) 10.57 %

   (b) 5.11%

   (c) 9%

   (d) 10%

4. Calculate the WACC using market value weights and choose the correct answer from the following?

   (a) 12.80 %

(b) 5.11%

(c) 9%

(d) 10.55%

5. What will be the current market price of MNP Ltd.'s equity shares if Ke = 10%, expected dividend is Rs. 2 per share and annual growth rate is 5% from the following options:

(a) 40 per share

(b) 20 per share

(c) 30 per share

(d) 45 per share **(5 x 2 = 10 Marks)**

6. EBIT = 4,00,000

EBT = 3,00,000

Sales = 16,00,000

Which of the following is / are correct?

1. DFL is 1.33

2. Interest coverage ratio is 3

3. Operating profit margin is 25%

Select the correct answer using the code given below:

(a) 1, 2 and 3

(b) 1 and 2 only

(c) 1 and 3 only

(d) 3 only **(2 Marks)**

7. If velocity of stock is 3 months, annual sales amount to Rs.6 lakh at 20% gross profit margin and opening stock is Rs.90,000; what is the closing stock value?

(a) Rs. 90,000

(b) Rs. 70,000

(c) Rs. 1,50,000

(d) Rs. 1,00,000 **(2 Marks)**

8. Margin of safety is affected if:

1. P/V ratio changes

2. Fixed cost changes

3. Volume of sales changes

(a) 1 only

(b) 1 and 2 only

(c) 2 and 3 only

(d) 1, 2 and 3 **(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 financial statement and operating results of Alpha Limited revealed the following position as on 31st March, 2023:

—	Equity share capital (Rs. 10 fully paid share)	Rs. 20,00,000
—	Working capital	Rs. 6,00,000
—	Bank overdraft	Rs. 1,00,000
—	Current ratio	2.5 : 1
—	Liquidity ratio	1.5 : 1
—	Proprietary ratio (Net fixed assets/Proprietary fund)	.75 : 1
—	Cost of sales	Rs. 14,40,000
—	Debtors velocity	2 months
—	Stock turnover based on cost of sales	4 times
—	Gross profit ratio	20% of sales
—	Net profit ratio	15% of sales

Closing stock was 25% higher than the opening stock. There were also free reserves brought forward from earlier years. Current assets include stock, debtors and cash only. The current liabilities expect bank overdraft treated as creditors.

Expenses include depreciation of Rs. 90,000.

The following information was collected from the records for the year ended 31^{st} March, 2024:

— Total sales for the year were 20% higher as compared to previous year.

— Balances as on 31^{st} March, 2024 were : Stock Rs. 5,20,000, Creditors Rs. 4,15,000, Debtors Rs. 4,95,000 and Cash balance Rs. 3,10,000.

— Percentage of Gross profit on turnover has gone up from 20% to 25% and ratio of net profit to sales from 15% to 16%.

— A portion of Fixed assets was very old (book values Rs. 1,80,000) disposed for Rs. 90,000. (No depreciations to be provided on this item).

— Long-term investments were purchased for Rs. 2,96,600.

— Bank overdraft fully discharged.

— Percentage of depreciation to Fixed assets to be provided at the rate in the previous year.

PREPARE Balance Sheet as on 31st March, 2023 and 31st March, 2024.

(5 Marks)

(b) Theta Limited is expecting an annual earning of Rs. 3 Lakhs before paying any interest and taxes. The company has Rs. 10 lakhs of 10% debentures in its capital structure. The capitalisation rate is 12.5%. You are required to calculate the value of Theta Limited as per the NI approach. Also, COMPUTE the overall cost of capital. **(5 Marks)**

(c) The following data relates to Beta Limited:

	Rs.
Sales	2,00,000
Less: Variable Expenses (30%)	60,000
Contribution	1,40,000
Fixed operating expenses	1,00,000
EBIT	40,000
Less: Interest	5,000
EBT	35,000

(i) CALCULATE by what percentage will EBT increase if sales increases by 6 percent.

(ii) CALCULATE by what percentage will EBIT increase if there is 10 per cent increase in sales?

(iii) CALCULATE by what percentage EBT increase if EBIT increases by 6 per cent? **(5 Marks)**

2. (a) ABC Ltd., a newly formed company has applied to the Private Bank for the first time for financing it's Working Capital Requirements. The following information is available about the projections for the current year: Estimated Level of Activity Completed Units of Production 31,200.

Raw Material Cost	Rs 40 per unit
Direct Wages Cost	Rs 25 per Unit
Overhead	Rs 40 per Unit (Incl Rs 10 of Depreciation)
Selling Price	Rs 150 per unit
GP Ratio (Cash Cost)	30%
Net Profit Ratio	25% (On Total cost)
Raw Material in Stock	Avg of 30 days consumption
Work in Progress Stock at 30% of FG Produced Units	****Valued at Prime Cost** Material – 90% into process

	Relevant Conversion Cost – 60% completed
Finished Goods Stock	2,500 units
Credit Allowed by the supplier	30 Days
Credit Allowed to Purchasers	45 Days
Direct Wages [Lag in payment]	15 Days
Expected Cash Balance	1,25,000

Safety margin is to be kept at 15% of the net working capital required inclusive of the margin amount. Assume that production is carried on evenly throughout the year (360 days) and wages and overheads accrue similarly. All sales are on the credit basis. You are required to CALCULATE the Net Working Capital Requirement. **(6 Marks)**

(b) Return on Equity (ROE) is Satva Limited is 15% and the capitalization rate applicable to the company is at 20%. Satva Limited's Book Value per share (BVPS) is Rs 125. Calculate the intrinsic value of the share today using Gordon's model and Walter's model if the company's policy is to retain 65% of the earning**.** **(4 Marks)**

3. Hemsparsh Private Limited is globally recognized consultancy firm having its presence in various countries across the globe and is currently headquartered at Ahmedabad, India.

It plans to commence a new branch in the Australia owing to the untapped opportunities available there in the outsourcing business. The company hired a professional for the preparation of the Project report and the fee paid was Rs 2,00,000. The company also incurred Rs 5,00,000 in the form R&D costs. As per the project report, the Company will require an initial fund outlay of Rs 25 crores for buying property & setting up the other infrastructure. It will also require working capital amounting to Rs 5 crore. The company is planning to operate for a very long period of time, however for the sake of simplicity, calculations shall end at the end of the 10th year. The Earnings before tax but after deducting Interest Exp (EBT) estimated would be as follows –

YEAR	**EBT (Amount in Rs)**
1	2,00,00,000
2	2,50,00,000
3	4,00,00,000
4	4,75,00,000
5	6,00,00,000
6	6,40,00,000
7	6,15,00,000
8	5,25,00,000
9	3,80,00,000
10	2,90,00,000

The above amounts also include an allocated common cost of Rs 12,50,000. Company will distribute 10% dividends every year on post-tax earnings. Company intends to borrow funds of 3 crores at a post-tax Interest rate of 6.5% in India. As per the tax treaty between India & Australia (Tax Agreement between two nations), first 3 years are tax free and from 4th year 75% of corporate taxes are to be paid in the country where it is headquartered and balance in the other nation. Total Corporate tax rate applicable to the company is 30%. However, tax on capital gains is to be paid at 15%, only in the headquarters. Salvage value for depreciation purpose is estimated at Rs. 90,00,000. The assets would be disposed of in the market at Rs. 3,50,00,000 at the end. Hemsparsh Private Limited desires a premium of 3% to the current MCLR of 12% (Marginal Cost of Funds based Lending Rate). Assume no other assets in the block.

CALCULATE NPV for the project and advise only from Indian law perspective.

If the company wishes to recoup its investment within 3.5 years, STATE any two measures that the company shall take. **(10 Marks)**

4. (a) EXPLAIN the difference between factoring and forfaiting **(4 Marks)**

   (b) DESCRIBE some of the tasks that demonstrate the importance of good financial management **(4 Marks)**

   (c) EXPLAIN the concept of Drop – Lock Bond (DL Bonds) **(2 Marks)**

   OR

   (c) MENTION any one advantage of stock dividend – to the company as well as to the investor **(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) Galaxy Enterprises Limited (GEL) operates as a diversified conglomerate with a significant presence in various industries, including electronics, packaged foods, textiles, heavy machinery, and renewable energy. Leveraging its substantial free reserves of ₹85,000 crores, GEL has built a strong brand reputation, largely driven by its market leadership across multiple sectors.

In the renewable energy sector, GEL has been the industry leader for over 15 years. The division’s recent performance has been exceptional. A significant market development occurred when two competitors, Nova Green Energy Limited and Zenith Solar Limited – previously ranked second and third in market share, respectively – merged to create a new entity, Synergy Renewables Ltd (SRL). Following the merger, SRL has claimed the top spot in market share, intensifying competition.

Against this backdrop, the Chairman of GEL convened a strategic meeting with the Board of Directors, divisional heads, marketing executives, and the Group CFO. The meeting focused on formulating growth strategies for the renewable energy division, identifying opportunities for diversification, and announcing an interim dividend in honour of GEL’s platinum jubilee celebrations.

Mr. Arvind Malhotra, CEO of the renewable energy division, emphasized the industry's slow pace of modernization compared to global standards. He highlighted the potential in emerging product categories, such as next-generation solar panels, energy storage systems, and advanced wind turbines. He proposed a modernization initiative requiring an investment of ₹7,000 crores. This transformation is projected to reduce operational costs by 20% and minimize wastage by 12%.

The CFO presented an analysis revealing that competitors are unlikely to invest in significant upgrades or expansions for the next 6–8 years due to financial constraints. In response, the Board approved the modernization initiative and allocated an additional ₹1,500 crores to strengthen the division's supply chain.

Another proposal discussed was GEL’s entry into the electric vehicle (EV) segment. The Board approved this diversification strategy, allocating ₹8,000 crores to establish a foothold in this rapidly growing market. Additionally, the Board authorized the distribution of an interim dividend of ₹75 per share to commemorate GEL's platinum jubilee.

In preparing for these strategic initiatives, the Board also evaluated key stakeholders to determine their influence and interest. Shareholders and the Board of Directors emerged as primary stakeholders with both high influence and interest, necessitating active engagement to secure their support. Regulatory authorities were recognized as influential but less interested in the immediate plans, requiring regular updates to ensure compliance. Customers and employees, while not as powerful, were identified as highly interested stakeholders, particularly concerning the renewable energy division's modernization and the entry into the EV market.

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

(i) GEL has approved significant investments in modernizing its renewable energy division and entering the electric vehicle segment. Analyze the level of strategy these decisions represent and identify the correct justification for your answer.

(a) Functional level, as these are related to operational improvements within the renewable energy division.

(b) Business level, as these initiatives align with the goals of a single division to gain a competitive edge.

(c) Corporate level, as they involve decisions impacting the overall portfolio and diversification of GEL.

(d) Operational level, as these focus on day-to-day activities within the divisions. **(2 Marks)**

(ii) With the merger of Nova Green Energy Limited and Zenith Solar Limited into Synergy Renewables Ltd (SRL), how does this development influence GEL's strategic priorities in the renewable energy sector under Porter's Five Forces framework?

(a) The merger reduces the threat of substitutes by consolidating competing technologies.

(b) It increases the bargaining power of buyers by providing them with a stronger alternative supplier.

(c) It heightens the intensity of industry rivalry by creating a stronger competitor with greater market share.

(d) The merger strengthens the bargaining power of suppliers due to greater reliance on key inputs. **(2 Marks)**

(iii) GEL's decision to enter the EV market represents a diversification strategy. Evaluate which type of diversification strategy is being pursued and the reasoning behind this classification.

(a) Concentric diversification, as the EV market shares synergies with renewable energy technologies.

(b) Vertical integration, as GEL seeks to integrate upstream or downstream activities in the automotive value chain.

(c) Horizontal diversification, as GEL expands into a market unrelated to its existing renewable energy operations.

(d) Conglomerate diversification, as GEL enters an entirely unrelated and independent business segment. **(2 Marks)**

(iv) GEL identified shareholders and the Board of Directors as key stakeholders. Analyze the rationale for classifying them as both high influence and high interest and how this influences strategic communication.

(a) They directly impact compliance with regulatory standards, necessitating regular updates.

(b) Their vested interest in dividends and long-term value creation makes their engagement essential for approval of key initiatives.

(c) They represent the end consumers whose perceptions directly influence GEL's market reputation.

(d) Their role in operational execution requires constant communication and support for strategy implementation. **(2 Marks)**

(v) By approving modernization in renewable energy and diversification into EVs, what corporate strategy is GEL pursuing, and how does it position the company as per Ansoff's product market growth matrix?

(a) Cost leadership, to lower operational expenses and offer competitive pricing.

(b) Product differentiation, by leveraging innovation in both existing and new markets.

(c) Market penetration, through deeper investments in existing product lines.

(d) Market expansion and diversification, to capture growth opportunities across unrelated industries. **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) Harish, a middle manager, is confused about the difference between flexibility and resilience while working around an uncertain situation in the organization. Can you help find the right difference between the two?

(a) Flexibility is about adapting to new things quickly, while resilience is about holding on to the current position of the things for the short-term as the organisation is confident of its efficiencies.

(b) Flexibility is a subset of resilience, and to be flexible means to be resilient.

(c) Flexibility is the opposite of resilience, where, if the organisation is flexible, it changes and if it is resilient it doesn't change at all.

(d) Both are the same. **(2 Marks)**

(ii) Suman, the marketing head of Jalwa Music Co., was doing research on the online music streaming business in India for her new age music for youngsters. She analyzed that though the players in the market were innovating rapidly, it was difficult to maintain a sustainable competitive advantage. Which aspect of strategic management best reflects this challenge?

(a) The need for continuous innovation.

(b) The importance of understanding the competitive landscape.

(c) The dynamic and unpredictable nature of the industry.

(d) The difficulty in estimating competitors' responses. **(2 Marks)**

(iii) During which stage of the Product Life Cycle would you typically expect the highest marketing expenditure per unit sold as companies aggressively promote their product?

(a) Maturity

(b) Introduction

(c) Growth

(d) Decline **(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) *Jupiter Electronics Ltd.* is known for its ability to come out with path-breaking products. Though the work environment at Jupiters is relaxed and casual, there is a very strong commitment to deadlines. The employees believe in a "work hard play hard" ethic. The organisation has moved away from formal and hierarchical set up to a more results-driven approach. Employees are committed to strategies and work towards achieving them. They guard innovations, maintain confidentiality and secrecy in their work. They are closely related to values, practices, and norms of organisations. What aspects of an organization are being discussed? Explain. **(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)**

(c) A business consultancy firm focuses on providing specialized services in environmental management consultancy. It assists client companies in establishing robust environmental management accounting systems for the measurement, recording, and analysis of environmental costs. A significant portion of the firm's operations involve conducting environmental audits to verify compliance with international assurance standards in environmental management—an exclusive service not offered by its competitors. While the firm also undertakes other management consultancy projects, these constitute only a minor share of its total annual revenue. Identify the strategy categories by Michael Porter which best describes the strategy of this firm. **(5 Marks)**

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

   (b) How the 'Strategic Business Unit' (SBU), structure becomes imperative in an organization with increase in number, size and diversity of divisions? **(5 Marks)**

3. (a) Rohit Patel has a small chemist shop in the central part of Ahmedabad. What kind of competencies Rohit can build to gain competitive advantage over online medicine sellers? **(5 Marks)**

   (b) Distinguish between Vision and Mission. **(5 Marks)**

4. (a) 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)**

   (b) Explain the strategic implications of each of the following types of business in a corporate portfolio:

   (a) Stars (b) Question Marks (c) Cash Cows (d) Dogs

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)**