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AIR 1, 3, 4, 13, 41

USEFUL FOR CA / CS / CMA

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www.carahulgarg.com

Tribute to

My Beloved Elder Brother

Sachin Garg

(Inspiration for me and all my students)
who left for heavenly abode on **3rd May, 2015**

“ Rahul Sir ”

Always Believes That

“If You Want To Be A Lion, You Must Train With Lions.”

CA RAHUL GARG

Know Your Mentor
CA Rahul Garg

Cleared all the 3 Professional courses
CA, CS, CMA at the age of 22 years 7 months with Ranks

5 times All India Rankholder
in Professional Exams (A Record).

Scored SINGLE DIGIT RANK 3 times
(including All India Rank 1).

Achieved exemption in 40+ papers out of total 50 papers
held by CA, CS, CMA institutes in his academic career.

Awarded by Mr. Atal Bihari Vajpayee
in 2010 for exceptional performance in Academics.

One of the best motivator in India
to push the students beyond their limits.

Covered by the National Magazine 'Career 360 - Outlook Group' amongst 12 National Toppers (across all streams) in 2010.

Specialist in
Time management and Stress management skills.

CA RAHUL GARG

Love For the Subject
Adv. Acc. , Cost & FM Sm

Only one in India to cover maximum Practical Questions in Cost, FM, Accounts.

Only one in India to give Homework for all Practical Subjects (to instill discipline and confidence) and check the same even in online class.

Tabular and Diagrammatic presentation of Theory to create interest.

Important points of theory Specially marked for last minute revision.

Simple and lucid language in theory for easy understanding.

Focus on 100% conceptual clarity Fully Exam Oriented Lectures.

Special Tips on Presentation and "How to Attempt" the paper to score wonderful marks.

Maximum students scoring Exemptions in each attempt.

Pioneer of MARATHON SESSIONS in country for the benefit of students.

Test Series, Doubt Sessions & Revision Support for all students of the profession.

Outstanding Reviews by the students regarding all the subjects.

Exhaustive Material covering all questions of module, RTP, MTP, and Past Exams.

RANK Certificate for All India Rank-41
(May 06) in CA PE II Exam (now CA Inter)

Roll No. 07389

The Institute of
Chartered Accountants of India

Rank Certificate

This is to certify that

RAHUL GARG

has passed the
Professional Education Examination - II
held by
The Institute of Chartered
Accountants of India

in the month of MAY, 2006

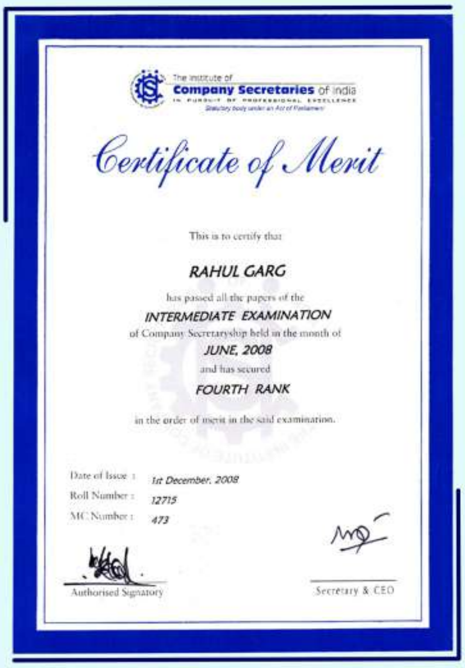
and that he/she obtained FORTYFIRST rank

in that Examination.

Joint Secretary
(Examinations)

Date 29TH JULY, 2006

RANK Certificate for All India Rank-4
(June 08) in CS Inter Exam



The Institute of Company Secretaries of India
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the
INTERMEDIATE EXAMINATION
of Company Secretaryship held in the month of
JUNE, 2008
and has secured
FOURTH RANK

in the order of merit in the said examination.

Date of Issue : 1st December, 2008
Roll Number : 12715
MC Number : 473

Authorised Signatory

Secretary & CEO

RANK Certificate for All India Rank-13
(June 09) in CS Professional (Final) Exam

ICSI THE INSTITUTE OF
Company Secretaries of India
IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

Certificate of Merit

This is to certify that

RAHUL GARG

has passed all the papers of the
PROFESSIONAL PROGRAMME EXAMINATION
of Company Secretaryship held in the month of
JUNE, 2009
and has secured
THIRTEENTH RANK

in the order of merit in the said examination.

Date of Issue : 11 January, 2010
Roll Number : 57870
MC Number : 1,053

Authorised Signatory

Secretary & CEO

Institute's Gold Medal for All India Rank-1
(June 08) in CMA Inter Exams

NRS/012986

No. 19

The Institute of Cost and Works Accountants of India

This is to certify that

Rahul Garg

has been awarded the following prizes for his having passed the Intermediate Examination of the Institute of Cost and Works Accountants of India held in June 2008

NAME OF THE PRIZE	PRIZE AWARDED FOR
Institute's First Prize for General Proficiency	Gold Medal for securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
G. Indira Debi Memorial Gold Medal	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
U.N. Sur Memorial Cash Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
A.K. Biswas Foundation Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
Northern Coalfields Limited Merit Award – Book Prize	For securing the highest total marks without exemption in Intermediate (Revised) Examination – June 2008
Bikramjit Majumdar Memorial Book Prize	For securing the highest total marks in Stage - I of Intermediate (Revised) Examination – June 2008

Given under the Common Seal of the Institute of Cost and Works Accountants of India, this Twenty eighth day of January 2009.

President

RANK Certificate for All India Rank-1
(June 08) in CMA Inter Exams

Regn. No. NRS/012986

The Institute of Cost and Works Accountants of India

This
Rank Certificate
is awarded to

RAHUL GARG

for his/her having passed in one sitting all the subjects of the Intermediate Examination of The Institute of Cost and Works Accountants of India held in the month of June 2008 and for his/her having secured the First Rank.

Given under the Common Seal of The Institute of Cost and Works Accountants of India, this Twenty fourth day of August, 2008.

President

RANK Certificate for All India Rank-3
(June 09) in CMA Final Exams

90167

Regn. No. NRS/012986

The Institute of Cost and Works Accountants of India

This
Rank Certificate
is awarded to

RAHUL GARG

for his/her having passed in one sitting all the subjects of the Final Examination of The Institute of Cost and Works Accountants of India held in the month of June 2009 and for his/her having secured the Third Rank.

Given under the Common Seal of The Institute of Cost and Works Accountants of India, this Twenty Ninth day of August, 2009.

President
(G. N. VENKATARAMAN)

A SPECIAL THANKS TO MY BIGGEST STRENGTH,

My wife Shikha Garg

Who Has always been my Side in all the Challenges.

This publication could **not have been possible without her.**

Section A

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Financial Management

INDEX

CHAPTER 1 COST OF CAPITAL

CONCEPT FINANCING DECISION & COST OF CAPITAL

B/S

- ESC ✓
- PSC ✓
- Res ✓
- Debt ✓

Long term

ST --- CA

Long term

Sources of finance

ST --- CL

Sources of finance

1	2	3	4
Cost of Capital	Leverage	Capital Structure	Theories of Capital Structure

refers to the cost to be incurred for various sources of finance

CONCEPT COMPONENTS OF CAPITAL

Share Capital	Reserves & Surplus	Debt

Share Capital:

ESC	PSC
dividend (variable)	dividend (fixed)

$\underbrace{\text{ESC dividend (variable)} \quad \text{PSC dividend (fixed)}}_{\text{Explicit Cost}}$

Reserves & Surplus: Implicit Cost

Debt:

Deb.	Bond	Loan

$\underbrace{\text{Deb.} \quad \text{Bond} \quad \text{Loan}}_{\text{Interest}}$

$\underbrace{\text{Interest}}_{\text{Explicit Cost}}$

CONCEPT COMPONENTS OF COST OF CAPITAL

Kd	Kp	Ke	Kre	WACC / Ko
Debt	PSC	ESC	RES	Overall Cost of Cap

CONCEPT — COST OF DEBT

Cost of Irredeemable Debt

$$K_d = \frac{I(1-t)}{NP} \times 100$$

I = Int./Deb. (FV/Deb. × I%)

t = corporate tax rate

NP = Net Proceeds/deb.

Cost of Redeemable Debt

$$K_d = \left\{ \frac{\boxed{I(1-t)} + \left(\frac{RV - NP}{n}\right)}{\frac{RV + NP}{2}} \right\} \times 100$$

+ — Interest —

100 NP   110 RV

$$\frac{110 - 100}{5} = 2$$

n = no. of years of life of debentures

RV = Redemption value/deb.

NP = FV/Deb

+ Prem/– Dis

Issue Price/deb

– Floatation cost → as a % on Issue Price (not on Face value)

NP/Deb

★★ If MP given; consider that

CONCEPT — COST OF PREFERENCE SHARE CAPITAL

Cost of Irredeemable Preference Share

$$K_p = \frac{D}{NP} \times 100$$

Cost of Redeemable Preference Share

$$K_p = \left\{ \frac{D + \frac{RV - NP}{n}}{\frac{RV + NP}{2}} \right\} \times 100$$

Question

If the company issues 10% debentures of face value of ₹ 100 each and realises ₹ 96 per debenture while the debentures are redeemable after 12 years at a premium of 12%, what will be the cost of debenture as per YTM?

Assume Tax Rate to be 50%.

ANSWER

PV					FVs
0	1	2	3	4	– – – 12
+ Net Proceeds	$\underbrace{\quad\quad\quad}$ – {Interest (1 – t)}				– Redemption value
	– [10 (1 – .50)]				
+ 96	**– 5 ₹**				**– 112**

इन FVs को किस Rate पर discount करें कि Total ; PV (96) के बराबर आ जाये। यही Rate K_d होगा।

Schedule showing Present values

Present value of cash flow

Year End	Particulars	Cash flows	× PVF @ 5%	= PVCF	PVF @ 7%	PVCF
0	Net Proceeds	+ 96	1	+ 96	1	+ 96
1 – 12	Interest	– 5	AF ✓ 8.863	– 44.315	7.943	– 39.72
12	Redemption value	– 112	.557	– 62.384	.444	– 49.73
				– 10.70		+ 6.557

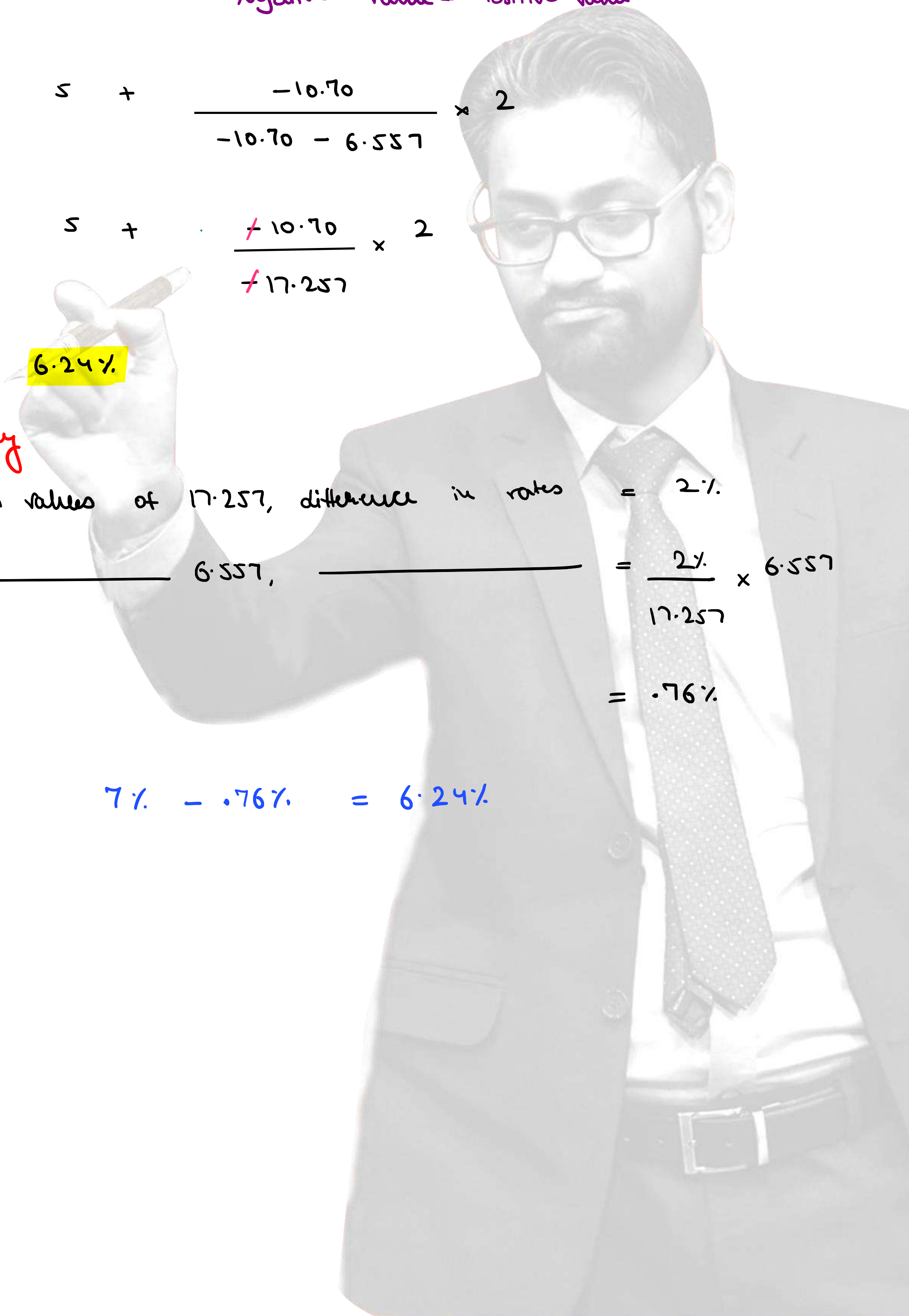
5%	+ 1.24%	6.24%	.76%	7%
– 10.70	10.70	0	6.557	+ 6.557

$\underbrace{10.70 \quad\quad 6.557}_{17.257}$

For gap in values of 17.257, difference in rates = 2 %

So, ________ 10.70 , ________ $= \frac{2}{17.257} \times 10.70$

= 1.24 %



$$K_d = \text{Lower Rate} + \frac{\text{Negative value}}{\text{Negative value} - \text{Positive value}} \times \text{Difference in Rates}$$

$$= 5 + \frac{-10.70}{-10.70 - 6.557} \times 2$$

$$= 5 + \frac{\cancel{-}10.70}{\cancel{-}17.257} \times 2$$

$$= \boxed{6.24\%}$$

Alternate way

For gap in values of 17.257, difference in rates $= 2\%$

So, ______ 6.557, ______ $= \frac{2\%}{17.257} \times 6.557$

$= .76\%$

$7\% - .76\% = 6.24\%$

CONCEPT COST OF EQUITY SHARE CAPITAL

Dividend Yield Model

$$Ke = \frac{DPS}{MPS} \times 100$$

MPS ---> if old issue then MPS, if new issue then NP/share

Earnings Yield Model

E → D/D, Retain

$$Ke = \frac{EPS}{MPS} \times 100$$

EPS ← Earning/share

Dividend Growth Model ☆ / Gordon Model

$$Ke = \left[\frac{D_1}{P_0} + g\right] \times 100$$

D_1 = D/D expected at the end/next year

$= D_0(1+g)$

P_0 = NP/share or MPS

g = growth rate $(b \times r)$

b ↓ Retention Ratio

r ↳ Rate of Return

Earnings Growth Model

$$Ke = \left[\frac{E_1}{P_0} + g\right] \times 100$$

E_1 = Earnings expected at the end

$\boxed{\text{Past}}$ Return

Realised Yield Approach

Used to find $\boxed{'g'}$ & not the Ke

$$\boxed{\text{growth rate} = (\text{Product of wealth ratios})^{1/n} - 1}$$

n = no. of wealth ratios

$$\text{wealth ratio} = \frac{\text{D/D at the end of year}}{\text{D/D in the beginning of year}}$$

10 —— 12

$\frac{12}{10} = 1.20$

20%

$$g = (PWR)^{1/n} - 1$$

$$1+g = (PWR)^{1/n} \Rightarrow PWR = (1+g)^n$$

$$FV = PV.(1+r)^n$$

$$\boxed{\frac{FV}{PV} = (1+r)^n}$$

$$\boxed{PWR} = (1+g)^n$$

$$PWR = \frac{D/D\ end}{D/D\ beg.}$$

Value of $(PWR)^{1/n}$ can be found from FVIF Table.

Capital Asset Pricing Model

$$Ke = R_f + \beta(R_m - R_f)$$

R_f

: Risk free rate of return

: Government Rate

: T-Bill Rate

: G-Sec Rate

β

: Beta coefficient of Equity shares

: Market Related Risk

: Market sensitivity Index

R_m

Expected Return of Market

$R_m - R_f$ ★

Market Risk Premium

CONCEPT — COST OF RETAINED EARNINGS

In absence of Personal Taxes

$$K_{re} = \frac{D_1}{P_0} + g$$

P_0 → Market Price (& not the Issue Price)

Don't deduct floatation cost.

In presence of Personal Taxes

$$K_{re} = Ke(1-t_p)(1-B)$$

t_p = Personal tax rate

B = Brokerage

Question

Current market price of a share is ₹ 125.

Dividend for the last 5 years is as follows :

Year	Dividend
2019	10.70
2020	11.30
2021	12.50
2022	13.20
2023	14.03

Compute Ke.

ANSWER

$$g = (\text{Product of Wealth Ratios})^{1/n} - 1$$

$$= \left(\frac{\cancel{11.30}}{10.70} \times \frac{\cancel{12.50}}{\cancel{11.30}} \times \frac{\cancel{13.20}}{\cancel{12.50}} \times \frac{14.03}{\cancel{13.20}} \right)^{1/4} - 1$$

1 2 3 4

$$= \boxed{\left(\frac{14.03}{10.70}\right)^{1/4}} - 1$$

$1/2 \times 1/2$

$$= \boxed{(1.311)^{1/4}} - 1$$

$$= 1.07 - 1$$

$$= .07 \text{ or } 7\%$$

$$K_e = \left\{ \frac{D_1}{P_0} + g \right\} \times 100$$

$D_1 = 14.03\,(1.07) = 15.01$ ₹

$$= \left(\frac{15.01}{125} + .07 \right) \times 100$$

$$= (.12 + .07) \times 100$$

$$= 19\%$$

CONCEPT WEIGHTED AVERAGE COST OF CAPITAL

S.No.	Source of Finance	Amount	Weight	Cost %	W × C
1	Equity Share Capital	a	a/e	✓	✓
2	Preference Share Capital	b	b/e	✓	✓
3	Reserves & Surplus	c	c/e	✓	✓
4	Debt	d	d/e	✓	✓
		e	1		Ko/WACC

CONCEPT BOOK VALUE WEIGHTS VS. MARKET VALUE WEIGHTS

Cost column remains unaffected

	Values in B/S — Amt	Values in market — Amt
	Values in B/S	values in market
Esc	✓ 100 L	✓
R&S	✓ 50 L	✗
Psc	✓	✓
Debt	✓	✓

MV of Eq. shares is to be divided in 2 Parts : Esc & : R&S — in the ratio of their book values

Esc (FV 10/-) — B/S: $\boxed{10L}$ — BV

MP/sh = 45 ₹

$$MV = \boxed{\left(\frac{10L}{10}\right) \times 45} = 45L$$

$$= \frac{\text{Total Book value}}{\text{FV/ share}} \times \text{MP/ share} = \text{Total MV}$$

Eq MV : 240 L

	Esc		R&S
BV Ratio	2	:	1
MVs	160 L	:	80 L

CHAPTER 2 LEVERAGE

CONCEPT — OPERATING RISK

to judge impact of operating fixed cost

Meaning and Basic Condition

It is measured by Degree of Operating Leverage (DOL).
Higher the DOL, higher is the operating risk.
Condition to apply DOL is the existence of Fixed Operating Cost.

$DOL = \frac{1}{MOS}$

Formula

one period data

$$\frac{\text{Contribution}}{\text{EBIT}}$$

2 period data

$$DOL = \frac{\%\ \Delta \text{ in EBIT}}{\%\ \Delta \text{ in sales/ contribution}}$$

$\%\ \Delta$ in EBIT $=$ DOL $\times$ $\%\ \Delta$ in sales

Interpretation

DOL measures the effect of change in Sales on EBIT.
1% change in sales shall cause >1% change in EBIT.

Question

Consider the following information for RSA Ltd:

Contribution	1,40,000
Fixed Cost	1,00,000
EBIT	40,000

Calculate percentage change in EBIT, if sales increase by 10%.

$$DOL = \frac{\text{Cont.}}{\text{EBIT}} = \frac{140000}{40000} = 3.5$$

$$DOL = \frac{\%\ \Delta \text{ in EBIT}}{\%\ \Delta \text{ in sales}} \Rightarrow 3.5 = \frac{\%\ \Delta \text{ in EBIT}}{10\%}$$

$\%\ \Delta$ in EBIT $= 35\%$

New EBIT $= 40000 + 35\% = 54000$

CONCEPT FINANCING RISK

to judge impact of fixed financing cost

Meaning and Basic Condition

It is measured by Degree of Financial Leverage (DFL).
Higher the DFL, higher is the financing risk.
Condition to apply DFL is the existence of Fixed Financing Cost.

Formula

one period data

	(a)	(b)
E	✓	✓
D	✓	✓
P	✗	✓

$$\frac{EBIT}{EBT} \qquad \frac{EBIT}{EBT - \frac{P.D.D}{1-t}}$$

2 period data

$$DFL = \frac{\%\ \Delta \text{ in } EPS}{\%\ \Delta \text{ in } EBIT}$$

$$\%\ \Delta \text{ in } EPS = DFL \times \%\ \Delta \text{ in } EBIT$$

Interpretation

DFL measures the effect of change in EBIT on EPS.
1% change in EBIT shall cause >1% change in EPS.

Question

Consider the following information for RSA Ltd:

EBIT (Earnings before Interest and Tax)	40,000
Interest	5,000
EBT	35,000

Calculate percentage change in earnings per share, if EBIT increase by 6%.

$$DFL = \frac{EBIT}{EBT} = \frac{40000}{35000} = 1.14$$

$$DFL = \frac{\%\ \Delta \text{ in } EPS}{\%\ \Delta \text{ in } EBIT}$$

2) $1.14 = \frac{\%\ \Delta \text{ in } EPS}{6}$

$$\%\ \Delta \text{ in } EPS = 1.14 \times 6$$

$$= 6.84\ \%$$

CONCEPT — COMBINED RISK

to judge impact of operating & financing fixed cost

Meaning and Basic Condition

It takes into account operating as well as financing risk.
It is measured by Degree of Combined Leverage (DCL).
Higher the DCL, higher is the combined risk.
Condition to apply DCL is the existence of Fixed Cost. (operating & financing)

DCL = DOL x DFL

Formula

One period data

	a	b
E	✓	✓
D	✓	✓
P	x	✓

a: $\frac{\text{Cont.}}{\cancel{\text{EBIT}}} \times \frac{\cancel{\text{EBIT}}}{\text{EBT}} = \frac{\text{Cont.}}{\text{EBT}}$

b: $\frac{\text{Cont.}}{\cancel{\text{EBIT}}} \times \frac{\cancel{\text{EBIT}}}{\text{EBT} - \frac{\text{P.DIV}}{1-t}} = \frac{\text{cont.}}{\text{EBT} - \frac{\text{P.DIV}}{1-t}}$

2 period data

$DCL = \frac{\%\Delta \cancel{\text{in EBIT}}}{\%\Delta \text{ in Sales}} \times \frac{\%\Delta \text{ in EPS}}{\%\Delta \cancel{\text{in EBIT}}}$

$DCL = \frac{\%\Delta \text{ in EPS}}{\%\Delta \text{ in Sales}}$

Interpretation

DCL measures the effect of change in sales on EPS.
1% change in sales shall cause >1% change in EPS.

Question

Consider the following information for Omega Ltd:

EBIT (Earnings before Interest and Tax)	₹ 15,750 Lakh
Earnings before Tax (EBT)	₹ 7,000 Lakh
Fixed Operating costs	₹ 1,575 Lakh

Calculate percentage change in earnings per share, if sales increase by 5%.

$DCL = \frac{17325}{7000} = 2.475$

Cont.	17325
− FC	1575
EBIT	15750
− I	8750
= EBT	7000

$2.475 = \frac{\%\Delta \text{ in EPS}}{5}$

$\%\Delta \text{ in EPS} = 2.475 \times 5$

$= 12.375\%$

CHAPTER 3 CAPITAL STRUCTURE

which maximises the wealth of shareholders

CONCEPT — CHOOSING OPTIMUM CAPITAL STRUCTURE

Particulars	Option 1	Option 2	Option 3
EBIT	Given in the Qs. &	remains same	for all options
- Interest			
= EBT			
- Tax @ __%			
= EAT			
- Preference Dividend: old → सब options में : new →	सिर्फ उस option में,	जिसमें PSC है	
= Earnings for Equity Shareholders			
÷ No. of Equity Shares	$\frac{100L}{\cancel{X}}$ =	10L shares	$\frac{\text{Total ESC (₹)}}{\text{MP/share}}$ ☆
× P/E Ratio $\left[\frac{MPS}{EPS}\right]$	(if given)		
= MPS	✓		

That option shall be chosen which provides maximum MPS./EPS (if P/E not given)

CONCEPT — FINDING OLD RATE OF RETURN

Qs says EBIT will improve by ___%.

$$\text{Rate of Ret.} = \frac{\text{Old EBIT}}{\text{Old Cap Emp}} \times 100$$

Given

Old Cap Emp → ESC — n x FV/share
+ R&S ✓
+ PSC ✓
+ Debt — Int (₹) / Int %

CONCEPT — FINDING NEW RATE OF RETURN

New RoR = Old RoR +/- Adjustments

CONCEPT — FINDING NEW EBIT

$$\text{New RoR} = \frac{\text{New EBIT}}{\text{New Cap Emp}} \times 100$$

New Cap Emp = Old Cap Emp + Extra Funds Raised

New EBIT = New Cap Emp x New RoR
= ✓ ✓

CONCEPT — INDIFFERENCE POINT

It is that level of EBIT, at which the firm has 2 such financial plans, which result in same level of EPS. EPS of P_1 = EPS of P_2

$$\frac{(EBIT - I)(1-t) - P.D/D}{n} = \frac{(EBIT - I)(1-t) - P.D/D}{n}$$

100000 $\boxed{EBIT = ?}$ 80000

CONCEPT — CHOICE OF PLAN

EBIT < IP	EBIT = IP	EBIT > IP
Choose that plan where FL is low	Choose any plan	Choose that plan where FL is high

CHAPTER 4 THEORIES OF CAPITAL STRUCTURE

CONCEPT — IMPORTANT FORMULAS

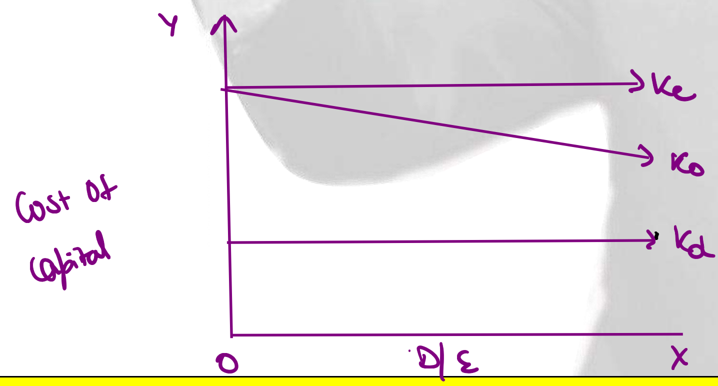
$V_f = V_d + V_e$ · Only 2 sources D & E

$= \frac{\text{Interest (₹)}}{k_d} + \frac{\text{EBIT} - \text{Interest}}{k_e}$ · No taxation

$V_f = \frac{\text{EBIT}}{K_o}$ → $K_o = \frac{\text{EBIT}}{V_f} \times 100$

CONCEPT — NET INCOME THEORY

Diagram



Question

Expected EBIT is ₹ 2 lacs. The company has ₹ 8 lacs in 10% debentures. The cost of equity or capitalisation rate is 12.5%. Calculate the value of firm and the overall cost of capital.

Ke Vf Ko

$V_f = V_d + V_e$

$= 800000 + \frac{200000 - 80000}{12.5\%}$

$= 800000 + \frac{120000}{12.5\%}$

$= 800000 + 960000$

$= 1760000$ ₹

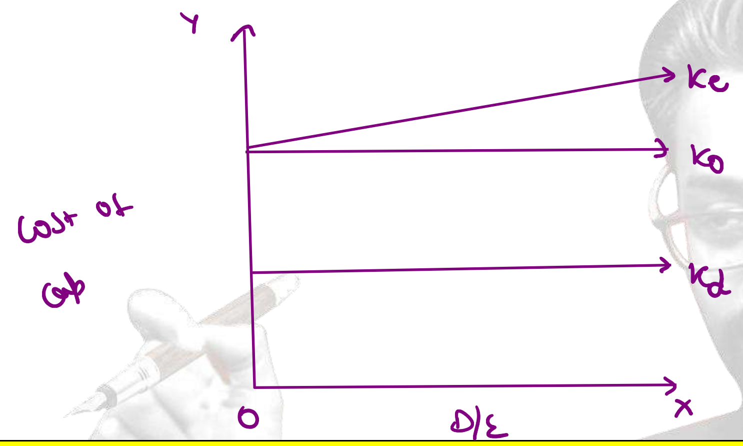
$K_o = \frac{\text{EBIT}}{V_f} \times 100$

$= \frac{200000}{1760000} \times 100$

$= 11.36\%$

CONCEPT — NET OPERATING INCOME THEORY

Diagram



Question

EBIT is ₹ 9,00,000. The firm's cost of debt is 10 % and currently firm employs ₹ 30,00,000 of debt. The overall cost of capital of firm is 12 %. Calculate cost of equity.

$$V_f = V_d + V_e$$

$$V_f = \frac{EBIT}{K_o} = \frac{900000}{12\%} = 75L ₹$$

$$75L = 30L + V_e$$

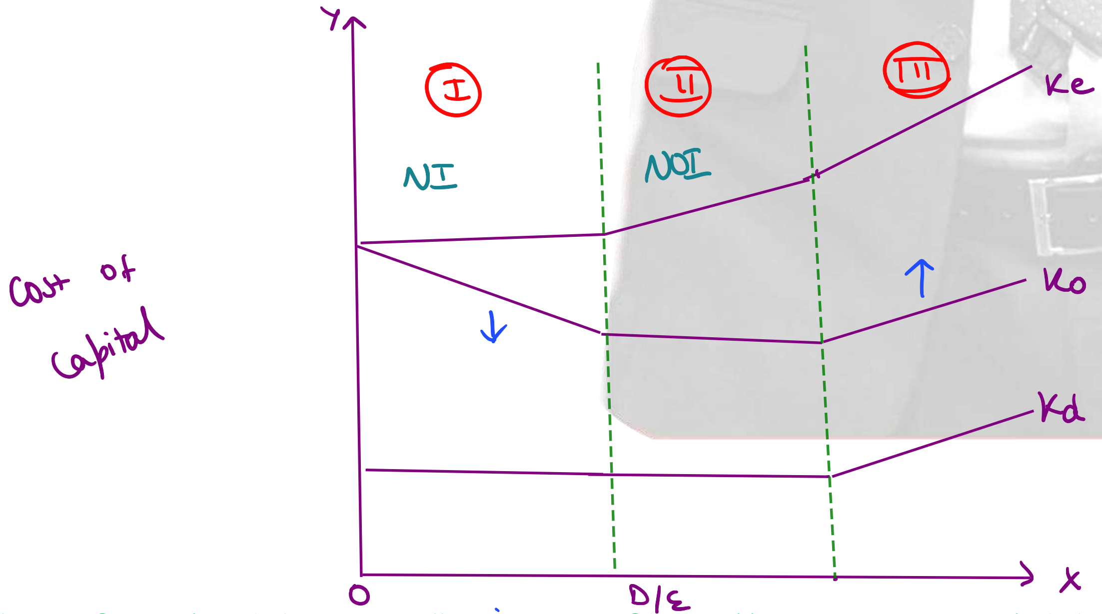
$$V_e = 45L$$

$$V_e = \frac{EBIT - Int.}{K_e} \Rightarrow 45L = \frac{9L - 3L}{K_e}$$

$$K_e = \frac{6L}{45L} \times 100 = 13.33\%$$

CONCEPT — TRADITIONAL APPROACH

Diagram



Question

In considering the most desirable capital structure of a company, the following estimates of the cost of debt and equity capital (after tax) have been made at various levels of debt-equity mix :

Debt as a percentage of total capital employed	Kd (%)	Ke (%)
0	5	12
10	5	12
20	5	12.5
30	5.5	13
40	6	14
50	6.5	16
60	7	20

	W	C	W x C
D	Wd	Kd	Wd x Kd
E	We	Ke	We x Ke
			Ko

Determine the optimal debt-equity mix for the company by calculating composite cost of capital.

Wd	Kd	Wd x Kd	We	Ke	We x Ke	Ko (WdKd + WeKe)
0	5	0	1	12	12	12
.10	5	.5	.90	12	10.8	11.3
.20	5	1	.80	12.5	10	11
.30	5.5	1.65	.70	13	9.1	10.75 ← least cost
.40	6	2.40	.60	14	8.4	10.80
.50	6.5	3.25	.50	16	8	11.25
.60	7	4.20	.40	20	8	12.20

CONCEPT M-M THEORY

Formula

Market Value of Firm

Unlevered	Levered
Debt ✗	Debt ✓

$$\frac{EBIT(1-t)}{K_o}$$

Value of Unlevered + (Debt x t)

[VL is increased by PV of Tax shield on Interest]

Question

'A' Ltd. and 'B' Ltd. are identical in every respect except capital structure. 'A' Ltd. does not employ debts in its capital structure whereas 'B' Ltd. employs 12% Debentures amounting to ₹ 10 lakhs. Assuming that :

a. All assumptions of M-M model are met;
b. Income-tax rate is 30%;
c. EBIT is ₹ 2,50,000 and Ke
d. The Equity capitalization rate of 'A' Ltd. is 20%.

Ke = Ko

Calculate the value of both the companies.

Value of companies

A Ltd (Unlevered)

$$V_f = \frac{EBIT(1-t)}{Ko}$$

$$= \frac{250000(1-.30)}{20\%}$$

$$= 875000 ₹$$

B Ltd (Levered)

$$V_f = V_{UL} + (Debt \times t)$$

$$= 875000 + (10L \times 30\%)$$

$$= 875000 + 300000$$

$$= 1175000 ₹$$

Debt

Issue 110 ₹

Interest × tax = Tax saving

PV = Debt

$\boxed{PV = 110}$

CHAPTER 5 CAPITAL BUDGETING

CONCEPT IMPORTANCE OF CAPITAL BUDGETING DECISION

Huge sum of money
Long term implication
Irreversible in short run

CONCEPT CAPITAL BUDGETING TECHNIQUES

Traditional Techniques	Modern Techniques
Accounting Rate of Return – Profits	Discounted Pay Back Period
Pay Back Period	Net Present Value
Variants of Pay Back Period	Profitability Index
	Internal Rate of Return

Cash flows (Pay Back Period, Variants of Pay Back Period)

Cash flows (Modern Techniques)

Time value of Money   X   ✓

CONCEPT ACCOUNTING RATE OF RETURN

Meaning

It is the rate of return generated by the project during its life.

Formula

$$ARR = \frac{\text{Avg. PAT}}{\text{Avg. Investment}} \times 100 = \_\_\,\%$$

$$\text{Avg. PAT} = \frac{\text{Total PAT of all years}}{\text{no. of years}}$$

$$\text{Avg. Investment} = \frac{\text{Cost of Project} + \text{Salvage value}}{2}$$

Decision Rule

Higher the better

Computation of PAT

Particulars	Year 1	Year 2	Year n
Sales			
- Variable Cost			
= Contribution			
- Fixed Cost			
= EBIT			
- Interest			
= EBT			
- Tax			
= EAT			

CONCEPT COMPUTATION OF CASH FLOWS

METHOD 1		METHOD 2	
EBDIT		EBDIT	
- Depreciation		- Interest	
= EBIT		= Balance	
- Interest		- Tax	
= EBT		= Balance	
- Tax		+ Tax Saving on Depreciation	
= EAT		(Depreciation × Tax Rate)	
+ Depreciation		= Cash Flow	
= Cash Flow			

Question

Question EBDIT 100000 10% Deb of ₹ 300000

Depreciation 20000 tax = 40%

METHOD 1		METHOD 2	
EBDIT	100000	EBDIT	100000
- Depreciation	(20000)	- Interest	(30000)
= EBIT	80000	= Balance	70000
- Interest	(30000)	- Tax @ 40%	28000
= EBT	50000	= Balance	42000
- Tax @ 40%	(20000)	+ Tax Saving on Depreciation (20000 x 40%)	8000
= EAT	30000	(Depreciation × Tax Rate)	
+ Depreciation	20000	= Cash Flow	50000
= Cash Flow	50000		

CONCEPT	PAY BACK PERIOD

Meaning

It is the period within which cost of the project will be recovered.

-52 1 2 2 4 3

Formula

If Cash Flows are equal p.a.	If Cash Flows are not equal p.a.
$\frac{\text{Cost of Project}}{\text{Annual Cash I/f}}$	Detailed schedule shall be prepared wherein all the cash flows shall be accumulated to interporate the P/B.

Statement showing computation of Payback period		
Year End	Cash Inflow	Cumulative Cash Inflow
1	✓	1
2	✓	1 + 2
3	✓	1 + 2 + 3
n	✓	1 + 2 + 3 - - - n

Decision Rule

Lower the better


CA RAHUL GARG
ADV. ACC. | COST | FM SM
REGULAR & FAST TRACK BATCH
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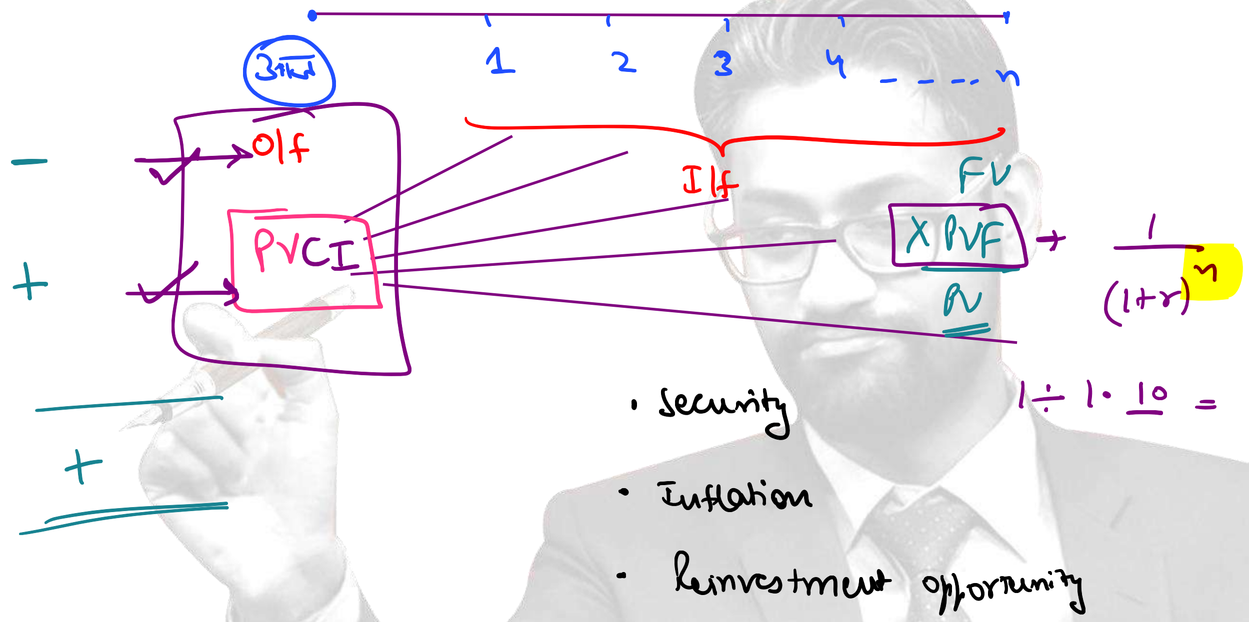
CONCEPT — TIME VALUE OF MONEY



CONCEPT — DISCOUNTED PAY BACK PERIOD

Decision Rule

Lower the better

Computation of Discounted Pay back Period

Statement showing computation of Discounted Payback period				
Year End	Cash Inflow	PVF @ ___ %	PVCF	Cumulative PVCF
1				1
2				1 + 2
3				1 + 2 + 3
n				1 + 2 + 3 ..... n

CONCEPT — NET PRESENT VALUE

Meaning

It denotes the net value of cash flows from the project, either positive or negative.

Formula

Total PVCI – Total PVCO

Decision Rule

Higher the better

Computation of NPV

Statement showing computation of NPV				
Year End	Particulars	Cash [redacted]flow	PVF @ $\boxed{\_\_}$ %	PVCF
0	Cash o/f	−	1	
1	Cash I/f			
2		+		
3				
⋮ n				

+/− + 2500

CONCEPT PROFITABILITY INDEX / desirability factor

Formula

$$PI = \frac{\Sigma PVCI}{\Sigma PVCO} \qquad \frac{100000}{90000} = 1.11 \qquad > 1$$

Decision Rule

Higher the better

CONCEPT NET PROFITABILITY INDEX / Net Present value Index

Formula

$$NPI = \frac{NPV}{\Sigma PVCO} = \frac{10000}{90000} = 0.11 \qquad > 0$$

Decision Rule

Higher the better

CONCEPT INTERNAL RATE OF RETURN

Meaning

It is the actual rate of return being generated by the project.

Formula

It is such rate at which Total PVCI = Total PVCO i.e. NPV is 0.

Methodology

Find out 1 Positive NPV.
Find out 1 Negative NPV.
The maximum difference between the 2 rates should be 4 - 5%.
Apply this formula after that :

$$\text{Lower Rate} + \frac{\text{Positive NPV}}{\text{Positive NPV} - (\text{Negative NPV})} \times \text{Difference in Rates}$$

Decision Rule

Higher the better

CONCEPT PROJECTS HAVING UNEQUAL LIFE

- Find NPV in normal manner
- $\text{Equalised NPV} = \dfrac{\text{NPV}}{AF\,(r\%,\, n)}$

Then take the decision on basis of Equalised NPV.

CONCEPT WORKING CAPITAL

Release of Working Capital	• O/F (−) • In silent cases, assume in 0 Year
Recovery of Working Capital	• I/f (+) • In silent cases, assume in last Year

CONCEPT SCRAP VALUE

BV > SV	BV = SV	BV < SV
• Capital Loss	• No CL / CG	• Capital Gain
• Tax saving on CL		• Tax Expense on CG

Net I/f = Scrap (I/f) + Tax saving on CL − Tax Expense on CG

Question

PR Engineering Ltd. is considering the purchase of a new machine which will carry out some operations which are at present performed by manual labour. The following information related to the model 'MX' is available:

	Machine 'MX'
Cost of Machine	₹ 8,00,000
Expected Life	6 years
Scrap Value	₹ 20,000

Estimated net income before depreciation and tax :

Year	₹
1	2,50,000
2	2,30,000
3	1,80,000
4	2,00,000
5	1,80,000
6	1,60,000

Corporate tax rate for this company is 30 percent and company's required rate of return on investment proposals is 10 percent. Depreciation will be charged on straight line basis.

You are required to:

a. Calculate the pay-back period.

b. Calculate the net present value of each proposal, if the P.V. factor at 10% is – 0.909, 0.826, 0.751, 0.683, 0.621 and 0.564.

ANSWER

(A) Depreciation = $\frac{8,00,000 - 20,000}{6}$ = 130000 ₹ p.a.

(B) Computation of Cash I/fs

Particulars	1	2	3	4	5	6
EBDT	250000	230000	180000	200000	180000	160000
− Dep.	(130000)	(130000)	(130000)	(130000)	(130000)	(130000)
= EBT	120000	100000	50000	70000	50000	30000
− Tax @ 30%	(36000)	(30000)	(15000)	(21000)	(15000)	(9000)
= EAT	84000	70000	35000	49000	35000	21000
+ Dep	130000	130000	130000	130000	130000	130000
= Cash I/f	214000	200000	165000	179000	165000	151000
+ Scrap						20000
						171000

(C) Schedule of Cumulative Cash Inflows

Year	Cash I/f	Cumulative Cash I/f
1	214000	214000
2	200000	414000
3	165000	579000
4	179000	758000
5	165000	923000
6	171000	1094000

800000

4 Years + $\frac{800000 - 758000}{165000}$

$4 \text{ Years} + \frac{42000}{165000}$

4 Years 3 Months 2 Days

(b) Schedule of NPV

Year end	Particulars	Cash flow	PVF @ 10%	PVCF
0	Cost of Machine	(800000)	1	(800000)
1	Cash I/f	214000	.909	194526
2	Cash I/f	200000	.826	165200
3	Cash I/f	165000	.751	123915
4	Cash I/f	179000	.683	122257
5	Cash I/f	165000	.621	102465
6	Cash I/f (incl. Scrap)	171000	.564	96444
				4807

Question

A machine purchased six years back for ₹ 1,50,000 has been depreciated to a book value of ₹ 90,000. It originally had a projected life of fifteen years and zero salvage value. A new machine will cost ₹ 2,50,000 and result in a reduced operating cost of ₹ 30,000 per year for the next nine years. The older machine could be sold for ₹ 50,000. The new machine shall also be depreciated on a straight-line method on nine-year life with salvage value of ₹ 25,000. The company's tax rate is 50% and cost of capital is 10%.

Determine whether the old machine should be replaced.

Given: Present Value of Re. 1 at 10% on 9th year = 0.424; and Present Value of an annuity of Re. 1 at 10% for 8 years = 5.335.

ANSWER

OLD :

6 Years | 9 Years

OC 1.50L | BV 90000, SV 50000 | SV 0

NEW :

9 Years

OC 250000 | SV 25000

Note 1 : Incremental Cash O/f

OC of new machine	= 250000 ₹
− Scrap of old machine	(70000 ₹)
Scrap value : 50000	
Tax sav. on CL : 20000	
(90000 − 50000) × 50%	
	180000 ₹

Note 2 : Incremental Cash I/f

Saving in Oper. Cost p.a	30000 ₹
− Tax @ 50%	(15000 ₹)
	15000 ₹

Note 3: Incremental Cash I/f due to Dep

(a) Dep OLD $= \dfrac{90000 - 0}{9} = 10000$

(b) Dep NEW $= \dfrac{250000 - 25000}{9} = 25000$

(c) Incr. Dep = 25000 − 10000 = 15000

(d) Incr Cash I/f = 15000 × 50% = 7500 ₹

Note 4: Incr. I/f due to Scrap

(a) Scrap OLD : 0

(b) Scrap NEW : 25000

(c) Incr. I/f : 25000 − 0 = 25000

Schedule of Incremental NPV

Year end	Particulars	CF	PVF/AF @ 10%	PVCF
0	Incr. o/f	(150000)	1	(150000)
1 − 9	Incr. I/f	15000	5.759	86385
1 − 9	Incr. I/f due to Dep	7500	5.759	43193
9	Incr. I/f due to Scrap	25000	.425	10625
				(39798)

5.335 + .425

As Incremental NPV is −ve, company is advised to continue with the old machine.

CHAPTER 6 WORKING CAPITAL MANAGEMENT

CONCEPT BASICS OF WORKING CAPITAL

Meaning

It refers to the funds required for day to day business operations.

Types of Working Capital

Gross Working Capital	Net Working Capital
CA	CA – CL

CONCEPT ESTIMATION OF WORKING CAPITAL

To have the better management of working capital, its estimation in advance is essential and important.

Estimated Current Assets	
- Estimated Current Liabilities	
= Estimated Working Capital	

Statement Showing Estimation of Working Capital

S.No.	Particulars	Computation	Amount
A	Current Assets		
1	Raw Material Inventory	RM consumed x $\frac{\text{RM holding Period}}{\text{360 D / 52 W / 12 M}}$	
2	WIP Inventory		
a	Material	RM consumed x $\frac{\text{conversion Period}}{\text{360 D / 52 W / 12 M}}$ x DOC	
b	Labour	DW x $\frac{\text{conv. Period}}{\text{360 D / 52 W / 12 M}}$ x DOC	

c	Overheads	OH x $\frac{\text{conv. Period}}{360D / 52W / 12M}$ x DOC	
3	FG Inventory	Cost of Production x $\frac{\text{Stock Holding Period}}{360D / 52W / 12M}$	
4	Debtors	Credit Sales (Cost of) x $\frac{\text{ACP}}{360D / 52W / 12M}$	
5	Prepaid Expenses	Exp. for the period x $\frac{\text{Time of Prepayment}}{360D / 52W / 12M}$	
6	Cash	Given	
	Total (A)		
B	Current Liabilities		
1	Raw Material Creditors	Credit Purchase x $\frac{\text{APP}}{360D / 52W / 12M}$	
2	Outstanding Expenses	Exp for the period x $\frac{\text{Time Lag}}{360D / 52W / 12M}$	
	Total (B)		
C	Working Capital	(A) - (B)	
D	Safety Margin / Prov. for contingency		
E	Total Working Capital	(C) + (D)	

CONCEPT	SOME SPECIAL POINTS

- If Doc of WIP not mentioned, take 100%, 50% & 50% for Mat, Lab & OH.
- RM Crs is also found on RM consumed

  ~~OS of RM~~
  + Pur of RM
  ~~− CS of RM~~

but there is Exception 'New Project'. (no open. stk)

OS of RM NIL

+ Pur ——— Bal. Fig ⇒ Creditors को compute किया जाता है।

- CS ——— ✓

= RM consumed ✓

CONCEPT	MAXIMUM PERMISSIBLE BANK FINANCE (MPBF) AS PER TANDON COMMITTEE

NORM I	NORM II	NORM III
Current Assets ✓	Current Assets ✓	Current Assets ✓
- Current Liabilities ✓	- 25 % ( )	- Core Current Assets ( )
= Working Capital ✓	= 75% Current Assets ✓	= Non Core Current Assets ✓
- 25 % ( )	- Current Liabilities (100%)	- 25 % ( )
= MPBF ✓	= MPBF ✓	= 75% Non Core Current Assets ✓
		- Current Liabilities ( )
		= MPBF ✓

CONCEPT	EFFECT OF DOUBLE SHIFT ON WORKING CAPITAL

Impact on Total Units	Total units produced get doubled
Impact on WIP Units	WIP Units remain same.
Impact on Variable Expenses	all variable exp get doubled in totality
Impact on Fixed Overheads	No change in totality (Per unit पर half हो जायेगी)

$10L/2L = 5/-$ $\qquad$ $10L/4L = 2.5/-$

Question

Black Limited has furnished the following cost sheet :

	₹ per unit
Raw Material	98
Direct Labour	53
Factory Overhead (Includes depreciation of ₹ 15 per unit)	88
Total Cost	239
Profit	43
Selling price	282

Additional Information:

(a)	Average raw material in stock	3 weeks
(b)	Average work-in-progress (% of completion with respect to Material 75%, Labour & Overhead 70%)	2 weeks
(c)	Finished goods in stock	4 weeks
(d)	Credit allowed to debtors	2.5 weeks
(e)	Credit allowed by creditors	3.5 weeks
(f)	Time lag in payment of labour	2 weeks
(g)	Time lag in payment of factory overheads	1.5 weeks
(h)	Company sells 25% of the output against cash	
(i)	Cash in hand and bank is desired to be maintained	₹ 2,25,000
(j)	Provision for contingencies is required @ 4% of working capital requirement including that provision.	

You may assume that production is carried on evenly throughout the year and labour and factory overheads accrue similarly. You are required to prepare a statement showing estimate of working capital needed to finance a budgeted activity level of 1,04,000 units of production. Finished stock, debtors and overhead are taken at cash cost.

ANSWER

Cost Sheet

Particulars	Computation	Amt.
RM	104000 x 98	101,92,000
DL	104000 x 53	55,12,000
Prime cost		157,04,000
Fact. O/H (excluding dep.)	104000 x 73 (88 - 15)	75,92,000
Cost of Production		2,32,96,000

Statement showing Estimation of Working Capital

S.No.	Particulars	Computation	Amt. (₹)
A.	Current Assets		
1.	RM Stock	$10192000 \times \frac{3}{52}$	588000
2.	WIP Stock		
a.	RM	$10192000 \times \frac{2}{52} \times 75\%$	294000
b.	DL	$5512000 \times \frac{2}{52} \times 70\%$	148400
c.	Fact. OHs	$7592000 \times \frac{2}{52} \times 70\%$	204400
3.	FG Stock	$23296000 \times \frac{4}{52}$	1792000
4.	Debtors	$23296000 \times 75\% \times \frac{2.5}{52}$	840000
5.	Cash in hand & bank		225000
			4091800
B.	Current Liabilities		
1.	RM Creditors	$10192000 \times \frac{3.5}{52}$	686000
2.	O/s wages	$5512000 \times \frac{2}{52}$	212000
3.	O/s Fact. OHs	$7592000 \times \frac{1.5}{52}$	219000
			11,17,000
C.	Working capital	A − B	2974800
D.	Prov. for contingency	W. Note	123950
E.	Total working capital	C + D	3098750

W. Note

Let total WC (incl. Prov.) = x

Prov. for contingency = 4% of x

= $.04x$

So, $2974800 + .04x = x$

$x - .04x = 2974800$

$.96x = 2974800$

$x = 30,98,750$

∴ Prov. for contingency = $3098750 \times 4\%$

= 123950 ₹

CONCEPT | **OPERATING CYCLE PERIOD**

Computation of Operating Cycle Period

Particulars	Days
Raw Material Holding Period	✓
+ WIP Conversion Period	✓
+ FG Holding Period	✓
+ Average Collection Period	✓
- Average Payment Period	
	✓

Gross Oper. cycle

Net Oper cycle

Computation of No. of Operating Cycles in a Year

$$\frac{360 \text{ Days}}{\text{Operating cycle period}}$$

Computation of Amount of Working Capital Required

$$= \frac{\text{Annual operating cost}}{\text{No. of operating cycles}}$$

only cash cost (reduce depreciation)

CHAPTER 7 DEBTOR'S MANAGEMENT

CONCEPT BASICS OF DEBTOR MANAGEMENT

We are concerned with evaluating the impact of change in credit period.

CONCEPT COMPUTATION OF INCREMENTAL GAIN

Statement Showing Incremental Gain or Loss				
S.No.	Particulars	Current Policy	Option 2	Option 3
1	Sales	✓	✓	✓
2	Contribution (+) (sales x P/V ratio)	✓ a	✓ b	✓ c
3 ✓	Incremental Contribution	✗	b - a	c - a
4	Bad Debts (-)	✓	✓	✓
5 ✓	Incremental Bad Debts	✗	✓	✓
6	Administration Cost (-)			
7 ✓	Incremental Administration Cost	✗	✓	✓
8	Collection Cost (-)			
9 ✓	Incremental Collection Cost	✗	✓	✓
10	Discount (-)			
11 ✓	Incremental Discount	✗	✓	✓
12	Opportunity Cost (-)			
13 ✓	Incremental Opportunity Cost	✗	✓	✓
14	Net Incremental Gain (3 - 5 - 7 - 9 - 11 - 13)	✓	✓	✓

Highest Positive

CONCEPT — COMPUTATION OF OPPORTUNITY COST

Sales × Credit Sales % × Cost % (variable) × ACP × Return %

Credit sales

Cost of credit sales

Cost of debtors

Opp. cost of debtors

CONCEPT — COMPUTATION OF DISCOUNT

2/10 net 40 → 2% Dis. if you pay in 10 Days; normal credit period 40 D.

Discount(₹) = Total Sales × % of customers availing discount × Discount (%)

CONCEPT — IMPACT OF FIXED COST

To compute opp. cost, we must take VC as well as FC

	current	1	2	
: VC of Sales	✓	✓	✓	
: FC of Sales	✓	✓	✓	(same)
TC of Sales				× ACP × Return%

CONCEPT — IMPACT OF TAXATION

Opp. cost ⇒ ~~Return~~ Return % (after tax)

cont.
- B/D
- Adm.
- Coll.
- dis

tax ×

+ Opp. cost → Return (after tax)

Convert into before tax

Ret. before Tax = $\frac{\text{Ret. After Tax}}{1-t}$

Ex: $\frac{15\%}{1-.40} = \frac{15}{.60} = 25\%$

CONCEPT	FACTORING

① Computation of Net Amount Given by Factor in Advance

Particulars	Computation	Amount
Average Debtors	Credit sales × Avg. Collection Period	✓
- Commission	Avg. debtors × comm %	(✓)
- Reserve	Avg. debtors × Reserve %	(✓)
= Eligible Advance		✓
- Interest on Advance	Eligible Advance × Int % × ACP	(✓)
= Net Amount given by Factor		✓

② Annual Analysis of Factoring

Savings Due to Factoring	Cost Due to Factoring
Administration Cost	Commission
Collection Cost	Interest on Advance
Bad Debts	

③ Effective Cost or Saving Due to Factoring

Cost due to factoring > Saving ______

Saving due to factoring > Cost ______

④ Effective Cost or Saving %

$$= \frac{\text{Eff cost/ Saving due to factoring}}{\text{Net amt given by factor in advance}} \times 100$$

Question

A Factoring firm has credit sales of ₹ 360 lakhs and its average collection period is 30 days. The financial controller estimates, bad debt losses are around 2% of credit sales. The firm spends ₹ 1,40,000 annually on debtor's administration. This cost comprises of telephonic and fax bills along with salaries of staff members. These are the avoidable costs.

A Factoring firm has offered to buy the firm's receivables. The factor will charge 1% commission and will pay an advance against receivables on an interest @ 15% p.a. after withholding 10% as reserve.

What should the firm do?

Assume 360 days in a year.

ANSWER

(1) Net Amount Given by Factor in Advance

Particulars	Computation	Amt (₹)
Average Debtors	$360L \times \frac{30}{360}$	30 L
– Commission	30L × 1%	(.30 L)
– Reserve	30L × 10%	(3 L)
= Eligible Advance		26.70 L
– Interest on Advance	$26.70L \times 15\% \times \frac{30}{360}$	(.33 L)
		26.37 L

(2) Savings Due to Factoring

Particulars	Computation	Amt (₹)
Bad Debts	360L × 2%	7.20 L
Administration Cost	–	1.40 L
		8.60 L

(3) Cost Due to Factoring

Particulars	Computation	Amt (₹)
Commission	360L × 1%	3.60 L
Interest on Advance	26.70L × 15%	4.005 L
		7.605 L

(4) Effective Savings Due to Factoring

= 860000 – 760500 ⇒ 99500 ₹

As there is effective savings of ₹ 99500, the firm must avail the services of factor.

CHAPTER 8 CASH MANAGEMENT

CONCEPT OPTIMUM CASH BALANCE

William J Baumol

A = Annual Requirement of Cash

T = Transaction Cost

C = Carrying Cost

$$\sqrt{\frac{2 \times A \times T}{C}}$$

CONCEPT AVERAGE CASH BALANCE

$$= \frac{\text{Optimum Cash Balance}}{2}$$

CONCEPT CASH BUDGET

S.No.	Particulars	1	2	3
A	Opening Balance	$\boxed{\text{Given}}$		
B	Receipts			
1	Cash Sales			
2	Receipt from Debtors	Rev./Cap		
3	Sale of Asset	PY/CY		
4	Tax Refund			
	Total (B)			
C	Payments			
1	Cash Purchases	Rev./Cap		
2	Payment to Creditors	PY/CY		
3	Payment for Wages			

4	Payment for Overheads			
5	Payment for Tax			
6	Purchase of Asset			
7	Dividend Paid			
	Total (C)			
D	Balance (A + B - C)	80000	10000	(20000) (10000)
E −	Investment	(60000)		
F +	Sale of Investment	-	10000	40000 10000
G +	Borrowings	-	-	+20000
H	Closing Balance (D – E + F + G)	20000	20000	20000 20000

V. Imp

CHAPTER 9 RATIO ANALYSIS

P/or = 2 variables

CONCEPT PROFITABILITY RATIOS (%)

1.	Gross Profit Ratio	$\frac{\text{Gross Profit}/ \times 100}{\text{Net Sales}}$
2.	Net Profit Ratio	$\frac{\text{Net Profit}/ \times 100}{\text{Net Sales}}$
3.	Return on Investment / Cap Emp	$\frac{\text{EBIT}/ \times 100}{\text{Capital Employed}}$
4.	Return on Equity	$\frac{\text{Earnings Available for Equity shareholders}/ \times 100}{\text{Equity Shareholder Funds}}$
5.	Return on Net Worth	$\frac{\text{Earnings after Tax}/ \times 100}{\text{Shareholder Funds}}$
6.	Return on Total Assets	$\frac{\text{Earnings after Tax}/ \times 100}{\text{Total Assets}}$

Purely Trading & P/L

B/S

ESC ✓	FA ✓
PSC ✓	CA ✓
R&S ✓	M. Exp ✓
Debt ✓	P/L (Dr) ✓
CL ✓	

EBIT
− I
= EBT
− t
= EAT
− P. DIV
= EAF ESh

- ESh Funds = ESC + R&S − M. Exp − P/L (Dr)
- Net worth / PF / Sh funds = $\underbrace{\text{ESC + R\&S − M. Exp − P/L (Dr)}}$ + PSC
- Capital Employed = $\underbrace{\text{Net worth}}$ + Debt

times

CONCEPT ACTIVITY RATIOS / Turnover ratios

1.	Asset Turnover Ratio		Net Sales/ x 100 Average Total Assets → if Q says this ratio is in %.
2.	Working Capital Turnover Ratio		Net Sales/ Average Working Capital
3.	Debtors Turnover Ratio		Net Credit Sales/ Average Receivables → Dr's + B R
4.	Debtors Collection Period	360/10 = $\boxed{36 \text{ Days}}$	360 D or 52 W or 12 M/ Debtors Turnover Ratio
5.	Creditors Turnover Ratio		Net Credit Purchase/ Average Payables → Crs + B/P
6.	Average Payment Period		360 D or 52 W or 12 M/ Creditors Turnover Ratio
7.	Stock Turnover Ratio FG		Cost of Goods Sold/ Average Stock
8.	Stock Holding Period		360 D or 52 W or 12 M/ Stock Turnover Ratio

Ratio — Tr / PL
&
B/s → Avg. $\frac{\text{op.} + \text{cl.}}{2}$

Tr. / P-L

B/s open — B/s clos.

↳ used by long term providers of finance

CONCEPT COVERAGE RATIOS

1.	Interest Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest on Debt}}$
2.	Cover for Preference Dividend	$\frac{\text{EAT}}{\text{Pref. DIV}}$ [redacted]
3.	Cover for Equity Dividend	$\frac{\text{Earnings available for Equity Shareholders}}{\text{Equity Dividend}}$
4.	Debt Service Coverage Ratio	$\frac{\text{PAT + Interest on Debt + Depreciation \& other Non Cash expenses}}{\text{Interest on Debt + Installment of debt due within 1 year}}$

$$\text{Cap Emp} = \text{FA} + \underbrace{\text{CA} - \text{CL}}$$

$$\text{Cap. Emp.} = \text{FA} + \text{WC}$$

$$\text{Prop. Funds} + \text{Debt} = \text{FA} + \text{WC}$$

NIL

$$\text{PF} = \text{FA} + \text{WC}$$

CONCEPT MARKET TEST RATIOS

1.	Earnings per Share	Earnings available for Equity Shareholders/ No. of Equity Shares
2.	Dividend per Share	Total Dividend for Equity Shareholders/ No. of Equity Shares
3.	Dividend Payout Ratio	EPS 10 DPS 6 Retain 4 DPS / x 100 EPS
4.	Dividend Yield Ratio (Market)	DPS / x 100 MPS
5.	Earnings Yield Ratio	EPS / x 100 MPS
6.	Price Earnings Ratio	MPS / EPS

CONCEPT	SOLVENCY/ FINANCIAL RATIOS

Short Term Solvency Ratios		
1.	Current Ratio / Working Capital Ratio	Current Assets / Current Liabilities
2.	Quick Ratio / Liquid Ratio / Acid Test Ratio	CA – Stk. – P/P Exp ← Quick Assets / CL – Bank O/D ← Quick Liabilities
Long Term Solvency Ratios		
3.	Debt Equity Ratio	Debt/ Equity
4.	Capital Gearing Ratio	Long term funds bearing Fixed rate of return/ Long term funds bearing Variable rate of return
5.	Proprietary Ratio	Shareholder Funds/ Total Assets – – → Total Liab.

$$\frac{\text{Debt} + \text{PSC}}{\text{Eq. shareholder funds}}$$

B/S → show maximum information

Sh. Cap.	FA
Debt	CA ✓
CL ✓	: Stk ✓
: Cr's ✓	: Dr's ✓
: Other ✓	: Cash ✓

CHAPTER 11 DIVIDEND DECISONS

CONCEPT GORDON MODEL

$$P = \frac{E(1-b)}{k-(b\times r)}$$

MP/share

E = Earning/share

b = Retention Ratio

k = Cost of capital

r = rate of return

$$k_e = \frac{D_1}{P_0} + g$$

$$k_e - g = \frac{D_1}{P_0}$$

$$P_0 = \frac{D_1}{k_e - \underbrace{g}_{(b\times r)}}$$

CONCEPT WALTER MODEL

$$P = \frac{D + \frac{r}{k}(E-D)}{k}$$

★ Optimum DID Payout ratio

$r > k$ Growth firm (NIL i.e. retain 100%)

$r < k$ Declining firm (100% i.e. retain nothing)

CONCEPT TRADITIONAL MODEL

$$P = m\left(D + \frac{E}{3}\right)$$

m = multiplier

CONCEPT LINTNER MODEL

$$D_1 = D_0 + [(EPS \times \text{Target Payout Ratio}) - D_0] \times AF$$

Adjustment Factor (given by Qs)

RAHUL SHIKHA ACADEMY
RSA
Quest For Excellence

Congratulates !
It's All India Rank Holders

THEY BELIEVED, THEY DID, SO CAN YOU


AIR 3
#Kunal


AIR 4
#Arpita


AIR 4
#Utkarsh


AIR 6
#Mauj Arif


AIR 9
#Abhinav


AIR 9
#Jatin


AIR 10
#Zainul


AIR 16
#Kali


AIR 23
#Shubham


AIR 27
#Pari


AIR 32
#Mohnish


AIR 36
#Rhythm


AIR 38
#Naman


AIR 39
#Satakshi


AIR 40
#Sohan


AIR 47
#Aryan


AIR 47
#Mayank


AIR 47
#Rohini


AIR 48
#Daksh


AIR 49
#Neerav

D/D doesn't affect value of firm

CONCEPT — M-M HYPOTHESIS

(1.) computation of P_1

$$P_0 = \frac{D_1 + P_1}{1+K}$$

P_0 = current selling price

D_1 = D/D at the end

P_1 = selling price after 1 year

K = cost of capital

(2.) computation of m

$$mP_1 = I - (E - nD_1)$$

m = no. of new shares

I = Investment

E = Earnings

n = no. of existing shares

(3.) Value of firm

$$nP_0 = \frac{(n+m)P_1 - I + E}{1+K}$$

इसमे कुछ नहीं भरना

All the above 3 steps are to be done

(a) in presence of D/D &

(b) in absence of D/D

Question

M Ltd. belongs to a risk class for which the capitalization rate is 10%. It has 25,000 outstanding shares and the current market price is ₹ 100. It expects a net profit of ₹ 2,50,000 for the year and the Board is considering dividend of ₹ 5 per share. M Ltd. requires to raise ₹ 5,00,000 for an approved investment expenditure.

Show, how the MM approach affects the value of M Ltd. if dividends are paid or not paid.

ANSWER

(A) Assuming Dividends are Paid

Step 1: Computation of P_1

$$P_0 = \frac{D_1 + P_1}{1 + K}$$

$$100 = \frac{5 + P_1}{1 + .10}$$

$$5 + P_1 = 100(1.10)$$

$$5 + P_1 = 110$$

$$P_1 = 110 - 5$$

$$P_1 = 105 \text{ ₹}$$

Step 2: Computation of m

$$m P_1 = I - (E - nD_1)$$

$$m \times 105 = 500000 - \left(250000 - \frac{25000 \times 5}{125000}\right)$$

$$m \times 105 = 500000 - 125000$$

$$m \times 105 = 375000$$

$$m = 3571.43 \text{ sh.} \sim 3572 \text{ shares}$$

Step 3: Value of M Ltd

$$= \frac{(n + m) P_1 + E - I}{1 + K}$$

$$= \frac{(25000 + 3572) \times 105 + 250000 - 500000}{1.10}$$

$$= 25,00,055 \text{ ₹} \quad (25L \text{ ₹ app.})$$

(B) If Dividends are not being paid

Step 1: Computation of P_1

$$P_0 = \frac{D_1 + P_1}{1 + K}$$

$$100 = \frac{0 + P_1}{1.10}$$

$$P_1 = 100 \times 1.10$$

$$P_1 = 110 \text{ ₹}$$

Step 2: Computation of m

$$m P_1 = I - (E - n D_1)$$

$$m \times 110 = 500000 - (250000 - 25000 \times 0)$$

$$m \times 110 = 250000$$

$$m = 2272.72 \sim 2273 \text{ shares}$$

Step 3: Value of M Ltd.

$$\frac{(n+m) P_1 + E - I}{1 + K}$$

$$\frac{(25000 + 2273) \times 110 + 250000 - 500000}{1.10}$$

$$= 25,00,027 \text{ ₹} \quad (25L \text{ app.})$$

As the Value of M Ltd. remains same in both the cases,

MM theory is proved.

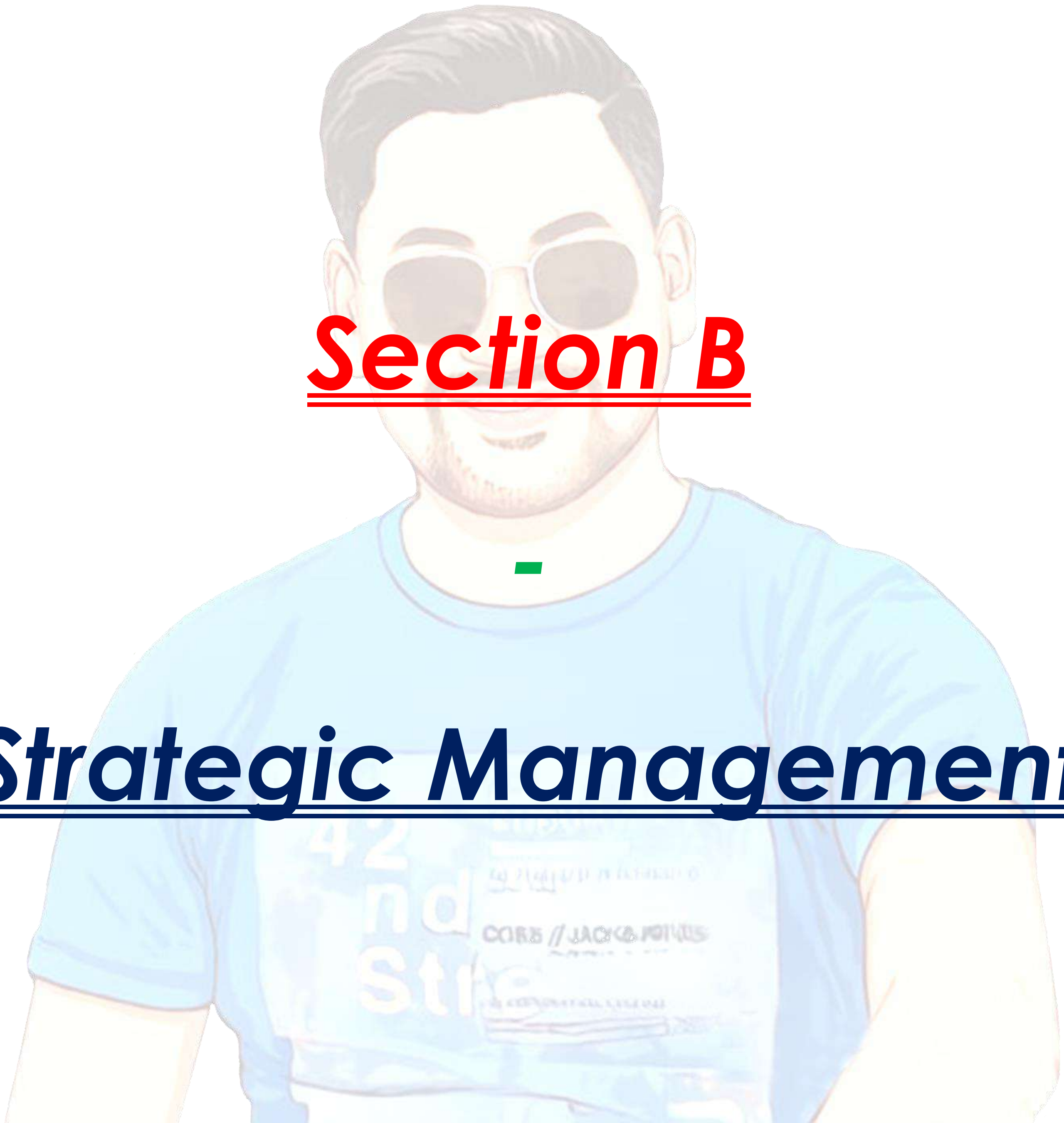
Future value interest factor of ₹1 per period at i% for n periods, FVIF(i,n).

(The Compound Sum of One Rupee)

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358
10	1.105	1.219	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.594
11	1.116	1.243	1.384	1.539	1.710	1.898	2.105	2.332	2.580	2.853
12	1.127	1.268	1.426	1.601	1.796	2.012	2.252	2.518	2.813	3.138
13	1.138	1.294	1.469	1.665	1.886	2.133	2.410	2.720	3.066	3.452
14	1.149	1.319	1.513	1.732	1.980	2.261	2.579	2.937	3.342	3.797
15	1.161	1.346	1.558	1.801	2.079	2.397	2.759	3.172	3.642	4.177
16	1.173	1.373	1.605	1.873	2.183	2.540	2.952	3.426	3.970	4.595
17	1.184	1.400	1.653	1.948	2.292	2.693	3.159	3.700	4.328	5.054
18	1.196	1.428	1.702	2.026	2.407	2.854	3.380	3.996	4.717	5.560
19	1.208	1.457	1.754	2.107	2.527	3.026	3.617	4.316	5.142	6.116
20	1.220	1.486	1.806	2.191	2.653	3.207	3.870	4.661	5.604	6.727
25	1.282	1.641	2.094	2.666	3.386	4.292	5.427	6.848	8.623	10.835
30	1.348	1.811	2.427	3.243	4.322	5.743	7.612	10.063	13.268	17.449
35	1.417	2.000	2.814	3.946	5.516	7.686	10.677	14.785	20.414	28.102
40	1.489	2.208	3.262	4.801	7.040	10.286	14.974	21.725	31.409	45.259
50	1.645	2.692	4.384	7.107	11.467	18.420	29.457	46.902	74.358	117.391

Contd.......

Period	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	1.110	1.120	1.130	1.140	1.150	1.160	1.170	1.180	1.190	1.200
2	1.232	1.254	1.277	1.300	1.323	1.346	1.369	1.392	1.416	1.440
3	1.368	1.405	1.443	1.482	1.521	1.561	1.602	1.643	1.685	1.728
4	1.518	1.574	1.630	1.689	1.749	1.811	1.874	1.939	2.005	2.074
5	1.685	1.762	1.842	1.925	2.011	2.100	2.192	2.288	2.386	2.488
6	1.870	1.974	2.082	2.195	2.313	2.436	2.565	2.700	2.840	2.986
7	2.076	2.211	2.353	2.502	2.660	2.826	3.001	3.185	3.379	3.583
8	2.305	2.476	2.658	2.853	3.059	3.278	3.511	3.759	4.021	4.300
9	2.558	2.773	3.004	3.252	3.518	3.803	4.108	4.435	4.785	5.160
10	2.839	3.106	3.395	3.707	4.046	4.411	4.807	5.234	5.695	6.192
11	3.152	3.479	3.836	4.226	4.652	5.117	5.624	6.176	6.777	7.430
12	3.498	3.896	4.335	4.818	5.350	5.936	6.580	7.288	8.064	8.916
13	3.883	4.363	4.898	5.492	6.153	6.886	7.699	8.599	9.596	10.699
14	4.310	4.887	5.535	6.261	7.076	7.988	9.007	10.147	11.420	12.839
15	4.785	5.474	6.254	7.138	8.137	9.266	10.539	11.974	13.590	15.407
16	5.311	6.130	7.067	8.137	9.358	10.748	12.330	14.129	16.172	18.488
17	5.895	6.866	7.986	9.276	10.761	12.468	14.426	16.672	19.244	22.186
18	6.544	7.690	9.024	10.575	12.375	14.463	16.879	19.673	22.901	26.623
19	7.263	8.613	10.197	12.056	14.232	16.777	19.748	23.214	27.252	31.948
20	8.062	9.646	11.523	13.743	16.367	19.461	23.106	27.393	32.429	38.338
25	13.585	17.000	21.231	26.462	32.919	40.874	50.658	62.669	77.388	95.396
30	22.892	29.960	39.116	50.950	66.212	85.850	111.065	143.371	184.675	237.376
35	38.575	52.800	72.069	98.100	133.176	180.314	243.503	327.997	440.701	590.668
40	65.001	93.051	132.782	188.884	267.864	378.721	533.869	750.378	1,051.668	1,469.772
50	184.565	289.002	450.736	700.233	1,083.657	1,670.704	2,566.215	3,927.357	5,988.914	9,100.438



Section B

-

Strategic Management

Question 1

Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of the two companies. Which is superior?

Answer

Yummy foods is proactive in its approach. On the other hand, Tasty Food is reactive.

A proactive strategy is a planned strategy whereas reactive strategy is an adaptive reaction to changing circumstances.

A company's strategy is typically a blend of

- *proactive actions on the part of managers to improve the company's market position and financial performance and*
- *reactions to unanticipated developments and fresh market conditions.*

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you an advantage in the mind of customers.

Question 2

Are there any limitations attached to Strategic Management?

Discuss any 3 limitations.

Answer

The presence of strategic management cannot counter all hindrances and always achieve success. There are limitations too, attached to strategic management, which are as follows :	
Complex & Turbulent environment	*The environment is highly complex and turbulent. It is difficult to understand the complex environment and exactly pinpoint how it will shape-up in future. The organisational estimate about its future shape may awfully go wrong and jeopardise all strategic plans.* *For example, Two-Wheeler Electric Vehicles brands counted on strategic benefits they would have because of the huge push from the government for electric mobility. However, customers are getting reluctant to purchase EVs due to the safety concerns amid the frequent incidents of battery's catching fire. So, strategy cannot overcome a turbulent environment.*
Costly Affair	*Strategic management is a costly process. Strategic management adds a lot of expenses to an organization. Expert strategic planners need to be engaged, efforts are made for analysis of external and internal environments devise strategies and properly implement. These can be really costly for organisations with limited resources particularly when small and medium organisation create strategies to compete.*
Difficult to estimate competitor's response	*In a competitive scenario, where all organisations are trying to move strategically, it is difficult to clearly estimate the competitive responses to a firm's strategies. It is quite difficult to estimate the strategic planning of competitors because most of these decisions are taken within closed doors by the top management.*

Question 3

Discuss any 4 benefits of Strategic Management.

Answer

The importance of strategic management lies in delivering superior organizational performance than that would otherwise obtain. In the competitive context it implies performance superior to that of the competitors or more generally, above average performance.	
Defines the goals and mission	The strategic management gives a direction to the company to move ahead. It helps management to define realistic objectives and goals which are in line with the vision of the company.
Helps organisations to be proactive	Strategic management helps organisations to be proactive instead of reactive in shaping its future. Organisations are able to analyse and take actions instead of being mere spectators. Thereby they are able to control their own destiny in a better manner.
Corporate defence mechanism	Strategic management serves as a corporate defence mechanism against mistakes and pitfalls. It helps organisations to avoid costly mistakes in product market choices or investments.
Core Competencies and competitive advantage	Strategic management helps the organisation to develop certain core competencies and competitive advantages that would facilitate it in its fight for survival and growth.

Question 4

Explain in brief the following

a. *vision*
b. *mission*

Answer

Vision	*Vision implies the blueprint of the company's future position. It depicts the organisation's aspirations and provides a glimpse of what the organisation would like to become in future. A clearly articulated strategic vision communicates management's aspirations to stakeholders and helps steer the energies of company personnel in a common direction.* *Apple Inc.'s CEO Tim Cook defined the vision of the company as - "We believe that we are on the face of the earth to make great products, and that's not changing."*
Mission	*A mission is an answer to the basic question 'what business are we in and what we do'. Mission statement helps to identify, 'what business the firm undertakes.'* *Apple's mission has been defined as - "to bring the best user experience to its customers through innovative hardware, software, and services."*

Question 5

Differentiate between the role of Corporate Level, Business Level and Functional Level.

Answer

Corporate Level	Business Level	Functional Level
The role of corporate-level managers is to oversee the development of strategies for the whole organization. This role includes defining the mission and goals of the organization, determining what businesses it should be in, allocating resources among the different businesses and providing leadership for the organization as a whole.	The strategic role of these managers is to translate the general statements of direction and intent that come from the corporate level into concrete strategies for individual businesses.	Functional-level managers are responsible for the specific business functions or operations (human resources, purchasing, product development, customer service, and so on) that constitute a company or one of its divisions. Thus, a functional manager's sphere of responsibility is generally confined to one organizational activity.

Question 6

Does the business interact with its environment?

If yes, what advantages are pursued by this exercise?

Answer

Relation of Strategy and Business Environment
There is close and continuous interaction between a business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively.

Advantages of Interaction between Strategy and Business Environment	
Determine opportunities and threats	The interaction between the business and its environment would explain opportunities and threats to the business. It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.
Give direction for growth	The interaction with the environment enables the business to identify the areas for growth and expansion of their activities. Once the business is aware and understands the changes happening around, it can plan and strategise to have successful business.
Image Building	Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. It helps to showcase that the business is aware and responsive to the needs. It creates a positive image and helps it to prosper and win over the competitors. **For example**, in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity.
Meeting Competition	It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly. The idea is to flourish and beat competition for its products and services.

Question 7

How the External Environment is categorised? Name various types and sub types.

And discuss the Economic element of Macro Environment and various issues surrounding it.

Answer

External Environment
1. Micro Environment
2. Macro Environment a. Demographic Environment b. Socio-Cultural Environment c. Economic Environment d. Political-Legal Environment e. Technological Environment

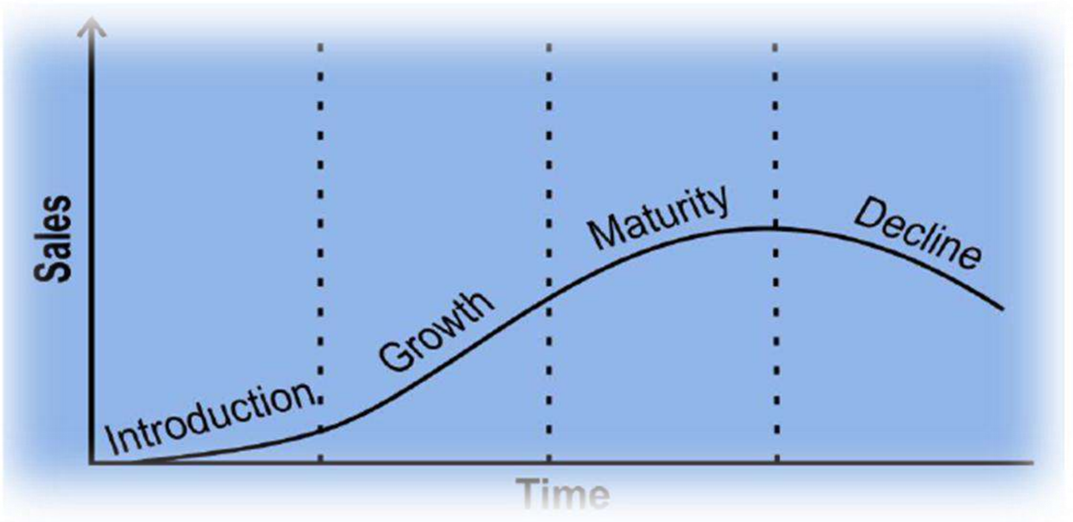
Economic Environment	
Meaning	The economic environment refers to the overall economic situation around the business and includes conditions at the regional, national and global levels. It encompasses conditions in the markets that have an effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.
Factors	The economic conditions of a nation refer to a set of economic factors that have great influence on business organizations and their operations. These include gross domestic product, per capita income, markets for goods and services, availability of capital, growth of foreign trade, strength of capital market, interest rates, disposable income, unemployment, inflation, etc. All these factors generally tell the state of the economy, whether it is doing good or is it performing poorly.
Example	Higher interest rates are detrimental for the businesses with high debt. In the real

	estate market, they reduce the capability of the prospective buyers to avail loan and pay instalments, thus lower the demand.
Importance	Economic environment determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, circulation of money, debt and credit availability. Income distribution pattern determines the business possibilities. The important point to consider is to find out the effect of economic prospect, growth and inflation on the operations of the business.

Question 8

Explain 4 stages pf Product Life Cycle.

Answer

Meaning
PLC is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages of introduction, growth, maturity and decline. It is a useful concept for guiding strategic choice.
Graph


Stages in PLC

Stage	Name of Stage	Explanation
First	Introduction	The first stage of PLC is the introduction stage with slow sales growth, in which competition is almost negligible, prices are relatively high, and markets are limited. The growth in sales is at a lower rate because of lack of awareness on the part of customers.
Second	Growth	The second phase of PLC is growth stage with rapid market acceptance.

		In the growth stage, the demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product and shows interest in purchasing it.
Third	Maturity	The third phase of PLC is maturity stage where there is slowdown in growth rate. In this stage, the competition gets tough, and market gets stabilised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.
Fourth	Decline	The fourth stage of PLC is decline, with sharp downward drift in sales. The sales and profits fall down sharply due to some new product replacing the existing product. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

Question 9

What is Value Chain Analysis? Name various activities and their subsets.

Answer

Value Chain Analysis	
Value chain analysis is a method of examining each activity in value chain of a business in order to identify areas for improvements, ie. to analyse how each stage in the process adds or subtracts value from the end product or service.	
Types	
Primary Activities	1. Inbound logistics 2. Operations 3. Outbound logistics 4. Marketing and sales 5. Service
Support Activities	1. Procurement 2. Technology development 3. Human resource management 4. Infrastructure

Question 10

What are the 5 constituents of Porter's 5 Forces Model? Discuss any 4 ways to discourage new entrants.

Answer

Porter's Five Forces Model	
➢ Threat of New Entrants ➢ Bargaining Power of Buyers ➢ Bargaining Power of Suppliers ➢ The Nature of Rivalry in the Industry ➢ Threat of Substitutes	
Barriers to Entry – Discouraging New Entrants	
Capital Requirements	When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.
Economies of Scale	Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows. A large firm that enjoys economies of scale can produce high volumes of goods at successively lower costs. This tends to discourage new entrants.
Product Differentiation	Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers. Firms in the personal care products and cosmetics industries actively engage in product differentiation to enhance their products' features. Differentiation works to reinforce entry barriers because the cost of creating genuine product differences may be too high for the new entrants.
Brand Identity	The brand identity of products or services offered by existing firms can serve as

	another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer. New entrants often encounter significant difficulties in building up the brand identity, because to do so they must commit substantial resources over a long period.

Question 11

Eco-carry bags Ltd., a recyclable plastic bags manufacturing, and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics.

A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers.

Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis?

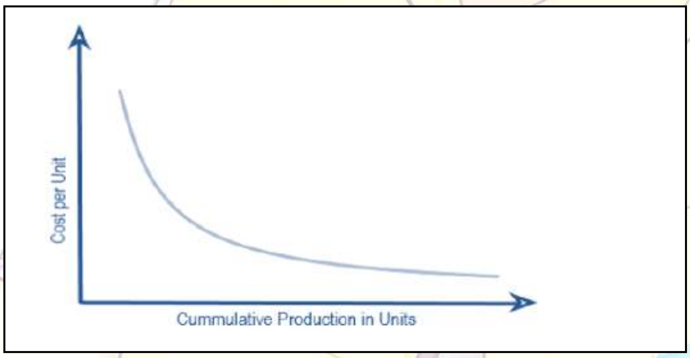
Answer

Eco-carry bags Ltd. faces competition from paper bags and old cloth bags and falls under Threat of Substitutes force categories in Porter's Five Forces Model for Competitive Analysis. Paper and cloth bags are substitutes of recyclable plastic bags as they perform the same function as plastic bags. Substitute products are a latent source of competition in an industry. In many cases, they become a major constituent of competition. Substitute products offering a price advantage and/or performance improvement to the consumer can drastically alter the competitive character of an industry.

Question 12

Briefly explain the concept of Experience Curve.

Answer

Experience Curve	
Meaning	Experience curve is based on the commonly observed phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production. It is based on the concept, "we learn as we grow". As a business grows, it understands the complexities and benefits from its experiences.
Features	Experience curve has following features: ♦ As business organisation grow, they gain experience. ♦ Experience may provide an advantage over the competition. Experience is a key barrier to entry. ♦ Large and successful organisation possess stronger "experience effect".
Diagram	

Question 13

What is Mendelow's Matrix? What does various quadrants show?

Answer

Meaning
The Mendelow Stakeholder matrix (also known as the Stakeholder Analysis matrix and the Power-Interest matrix) is a simple framework to help manage interests of various stakeholders.
Presentation of Matrix

Explanation of Matrix

Quadrant	**Action**	**Type**
1.	KEEP SATISFIED Stakeholders	High power, less interested people
2.	KEY PLAYERS Stakeholders	High power, highly interested people
3.	LOW PRIORITY Stakeholders	Low power, less interested people
4.	KEEP INFORMED Stakeholders	Low power, highly interested people

Question 14

Explain the concept of

a. Enlightened Marketing

b. Augmented Marketing

c. Place Marketing

d. Direct Marketing

Answer

Enlightened Marketing	It is a marketing philosophy holding that a company's marketing should support the best long-run performance of the marketing system that is beyond the prevailing mindset.
Augmented Marketing	This type of marketing includes additional customer services and benefits that a product can offer besides the core and actual product that is being offered. Such innovative offerings provide a set of benefits that promise to elevate customer service to unprecedented levels.
Place Marketing	Place marketing involves activities undertaken to create, maintain, or change attitudes and behaviour towards particular places say, marketing of business sites, tourism marketing.
Direct Marketing	Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response. Direct marketing includes catalogue selling, e-mail, push notifications, etc.

Question 15

What do you understand by Core Competency? Elucidate the four specific criteria of capabilities which lead to core competencies.

Answer

Meaning
C.K. Prahalad and Gary Hamel defined core competency as the collective learning in the organization, especially coordinating diverse production skills and integrating multiple streams of technologies. An organization's combination of technological and managerial know-how, wisdom and experience are a complex set of capabilities and resources that can lead to a competitive advantage compared to a competitor. The four specific criteria of capabilities are as follows :
Valuable
Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm creates value for customers by effectively using capabilities to exploit opportunities.
Rare
Core competencies are very rare capabilities and very few of the competitors possess this. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them.
Costly to Imitate
Costly to imitate means such capabilities that competing firms are unable to develop easily. For example, Competitors are deeply aware about Apple's operating system's (iOS) successful model. However, to date, no competitor has been able to imitate Apple's capabilities. These are also protected through copyrights.
Non-Substitutable
Capabilities that do not have strategic equivalents are called non-substitutable capabilities. The strategic value of capabilities increases as they become more difficult to substitute. For example, for years, firms tried to imitate Tata's low-cost strategy, but most have been unable to

duplicate Tata’s success. They did not realize that Tata has a unique culture and attracts some of the top talent in the industry. The culture and excellent human capital worked together in implementing Tata’s strategy and are the basis for its competitive advantage.
Thus, we can say that only when a capability is valuable, rare, costly to imitate, and non-substitutable, it is a core competence and a source of competitive advantage. Over a time, core competencies must be supported.

Question 16

Describe the terms Strength, Weakness, Opportunity, Threat wr.t. SWOT Analysis.

Answer

Strength	Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitors.
Weakness	A weakness is an inherent limitation or constraint of the organization which creates strategic disadvantage to it.
Opportunity	An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
Threat	A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

Question 17

Mohan has joined as the new CEO of XYZ Corporation and aims to make it a dominant technology company in the next five years. He aims to develop competencies for managers for achieving better performance and a competitive advantage for XYZ Corporation. Mohan is well aware of the importance of resources and capabilities in generating competitive advantage.

Discuss the four major characteristics of resources and capabilities required by XYZ Corporation to sustain the competitive advantage and its ability to earn profits from it.

Answer

XYZ Corporation is aiming to transform into a dominant technology company under the leadership of Mohan, the new CEO. He aims to develop competencies for managers for achieving better performance and a competitive advantage for the corporation. Mohan is also well aware of the importance of resources and capabilities in generating and sustaining the competitive advantage. Therefore, he must focus on characteristics of resources and capabilities of the corporation.

The sustainability of competitive advantage and a firm's ability to earn profits from it depends, to a great extent, upon four major characteristics of resources and capabilities which are as follows:

Durability	The period over which a competitive advantage is sustained depends in part on the rate at which a firm's resources and capabilities deteriorate. In industries where the rate of product innovation is fast, product patents are quite likely to become obsolete.
Transferability	Even if the resources and capabilities on which a competitive advantage is based are durable, it is likely to be eroded by competition from rivals. The ability of rivals to attack position of competitive advantage relies on their gaining access to the necessary resources and capabilities. The easier it is, the less sustainable will be the competitive advantage which is based on them.
Imitability	If resources and capabilities cannot be purchased by a would-be imitator, then they must be built from scratch. How easily and quickly can the competitors build the

	resources and capabilities on which a firm's competitive advantage is based? This is the true test of imitability.
Appropriability	Appropriability refers to the ability of firm's owners to appropriate the returns on its resource base.

Question 18

What do you understand by Cost Leadership Strategy of Michael Porter? Also state how one can achieve the leadership in cost?

Answer

Meaning

It is a low-cost competitive strategy that aims at broad mass market. It requires vigorous pursuit of cost reduction in the areas of procurement, production, storage and distribution of product or service and also economies in overhead costs. Because of its lower costs, the cost leader is able to charge a lower price for its products than most of its competitors and still earn satisfactory profits.

For example, Decathlon Group's mega sports stores have been following low-cost leadership strategy to gain international recognition and also beat competition.

Achieving Cost Leadership Strategy

To achieve cost leadership, following actions could be taken:

1. *Prompt forecasting of demand of a product or service.*
2. *Optimum utilization of the resources to achieve cost advantages.*
3. *Achieving economies of scale; thus, lower per unit cost of product/service.*
4. *Standardisation of products for mass production to yield lower cost per unit. (Example of McDonald's)*
5. *Invest in cost saving technologies and using advance technology for smart efficient working.*
6. *Resistance to differentiation till it becomes essential.*

Question 19

What advantages does a differentiation strategy offer?

Answer

Differentiation strategy is aimed at broad mass market and involves the creation of a product or service that is perceived by the customers as unique. Because of differentiation, the business can charge a premium for its product.	
Advantages	
A differentiation strategy has definite advantages as it may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power.	
Rivalry	Brand loyalty acts as a safeguard against competitors. It means that customers will be less sensitive to price increases, as long as the firm can satisfy the needs of its customers.
Buyers	They do not negotiate for price as they get special features and they have fewer options in the market.
Suppliers	Because differentiators charge a premium price, they can afford to absorb higher costs of supplies as the customers are willing to pay extra too.
Entrants	Innovative features are an expensive offer. So, new entrants generally avoid these features because it is tough for them to provide the same product with special features at a comparable price.
Substitutes	Substitute products can't replace differentiated products which have high brand value and enjoy customer loyalty.

Question 20

Explain the characteristics of Stability Strategy.

Answer

- ✓ A firm opting for stability strategy stays with the same business, same product-market posture and functions, maintaining same level of effort as at present.
- ✓ The endeavour is to enhance functional efficiencies in an incremental way, through better deployment and utilization of resources. The assessment of the firm is that the desired income and profits would be forthcoming through such incremental improvements in functional efficiencies.
- ✓ Stability strategy does not involve a redefinition of the business of the corporation.
- ✓ It is a safe strategy that maintains status quo.
- ✓ It does not warrant much of fresh investments.
- ✓ The risk involved in this strategy is less.
- ✓ While opting for this strategy, the organization can concentrate on its resources and existing businesses/ products and markets, thus leading to building of core competencies.

The firms with modest growth objective choose this strategy.

Question 21

Gautam and Siddhartha, two brothers, are the owners of a cloth manufacturing unit located in Faridabad. They are doing well and have substantial surplus funds available within the business. They have different approaches regarding corporate strategies to be followed to be more competitive and profitable in future. Gautam is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies. On the other hand, Siddhartha desires to start another unit to produce readymade garments. Discuss the nature of strategic choices being suggested by the two brothers with reference to the payoffs and the risks involved.

Answer

Gautam wishes to diversify in a business that is not related to their existing line of product and can be termed as conglomerate diversification. He is interested in acquiring another industrial unit located in Faridabad manufacturing stationery items such as permanent markers, notebooks, pencils and pencil sharpeners, envelopes and other office supplies, which is not related to their existing product. It is an unrelated diversification. In process/ technology/ function, there is no connection between the new products and the existing ones.

On the other hand, Siddhartha seeks to move forward in the chain of existing product by adopting vertically integrated diversification/ forward integration. The cloth being manufactured by the existing processes can be used as raw material of garments manufacturing business. In such diversification, firms opt to engage in businesses that are related to the existing business of the firm. The firm remains vertically within the same process and moves forward or backward in the chain. It enters specific product/ process steps with the intention of making them into new businesses for the firm.

Both types of diversifications have their own risks. In conglomerate diversification, there are no linkages with customer group, customer marketing functions and technology used, which is a risk. In the case of vertical integrated diversification, there is a risk of lack of continued focus on the original business.

Question 22

How does the organisations expand through Strategic Alliance? Describe it's advantages as well.

Answer

Meaning of Strategic Alliance	
A strategic alliance is a relationship between two or more businesses that enables each to achieve certain strategic objectives which neither would be able to achieve on its own. The strategic partners maintain their status as independent and separate entities, share the benefits and control over the partnership, and continue to make contributions to the alliance until it is terminated.	
Advantages	
Organisational	Strategic alliance helps to learn necessary skills and obtain certain capabilities from strategic partners. Strategic partners may also help to enhance productive capacity, provide a distribution system, or extend supply chain.
Economic	Greater economies of scale can be obtained in an alliance, as production volume can increase, causing the cost per unit to decline. Finally, partners can take advantage of co-specialization, creating additional value, such as when a leading computer manufacturer bundles its desktop with a leading monitor manufacturer's monitor.
Strategic	Rivals can join together to cooperate instead of competing with each other. Vertical integration can be created where partners are part of supply chain.
Political	Sometimes strategic alliances are formed with a local foreign business to gain entry into a foreign market either because of local prejudices or legal barriers to entry.

Question 23

W.r.t. Strategic Exits, what are various retrenchment strategies?

Answer

Strategic Exits are followed when an organization substantially reduces the scope of its activity. This is done through an attempt to find out the problem areas and diagnose the causes of the problems. Next, steps are taken to solve the problems. These steps result in different kinds of retrenchment strategies :

- ✓ *If the organization chooses to focus on ways and means to reverse the process of decline, it adopts at turnaround strategy.*
- ✓ *If it cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed, it adopts a divestment (or divestiture) strategy.*
- ✓ *If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.*

Question 24

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

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

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

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

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

Answer

The Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. This matrix further helps to analyse different strategic directions.

According to Ansoff, the growth strategies to be followed in different cases are as follows :

(i)	Market Penetration	A leading producer of toothpaste, advises its customers to brush teeth twice a day to keep breath fresh. It refers to a growth strategy where the business focuses on selling existing products into existing markets.
(ii)	Diversification	A business giant in hotel industry decides to enter into dairy business. It refers to a growth strategy where a business markets new products in new markets.
(iii)	Market Development	One of India's premier utility vehicles manufacturing company ventures to foray into foreign markets. It refers to a growth strategy where the business seeks to sell its existing products into new markets.
(iv)	Product Development	A renowned auto manufacturing company launches ungeared scooters in the market. It refers to a growth strategy where business aims to introduce new products into existing markets.

Question 25

An industry comprises of only two firms-Soorya Ltd. and Chandra Ltd. From the following information relating to Soorya Ltd., prepare BCG Matrix :

Product	Revenues (in ₹)	Percent Revenues	Profits (in ₹)	Percent Profits	Percentage Market Share	Percentage Industry Growth Rate
A	6 Crore	48	120 Lakh	48	80	+15
B	4 Crore	32	50 Lakh	20	40	+10
C	2 Crore	16	75 Lakh	30	60	-20
D	50 Lakh	4	5 Lakh	2	5	-10
Total	12.5 Crore	100	250 Lakh	100		

Answer

Using the BCG approach, a company classifies its different businesses on a two dimensional growth-share matrix. In the matrix, the vertical axis represents market growth rate and provides a measure of market attractiveness. The horizontal axis represents relative market share and serves as a measure of company strength in the market. With the given data on market share and industry growth rate of Soorya Ltd, its four products are placed in the BCG matrix as follows:

Retain Market Share

Market Growth Rate	**High**	**Low**
High	*Product A [80% Market Share +15% Growth Rate]* **Stars**	*Product B [40% Market Share +10% Growth Rate]* **Question Marks**
Low	*Product C [60% Market Share -20% Growth Rate]* **Cash Cows**	*Product D [05% Market Share -10% Growth Rate]* **Dogs**

Product A is in best position as it has a high relative market share and a high industry growth rate.

On the other hand, product B has a low relative market share, yet competes in a high growth industry.

Product C has a high relative market share but competes in an industry with negative growth rate. The company should take advantage of its present position that may be difficult to sustain in long run.

Product D is in the worst position as it has a low relative market share and competes in an industry with negative growth rate.

Question 26

How is GE Matrix different from BCG Matrix? Briefly explain GE Matrix.

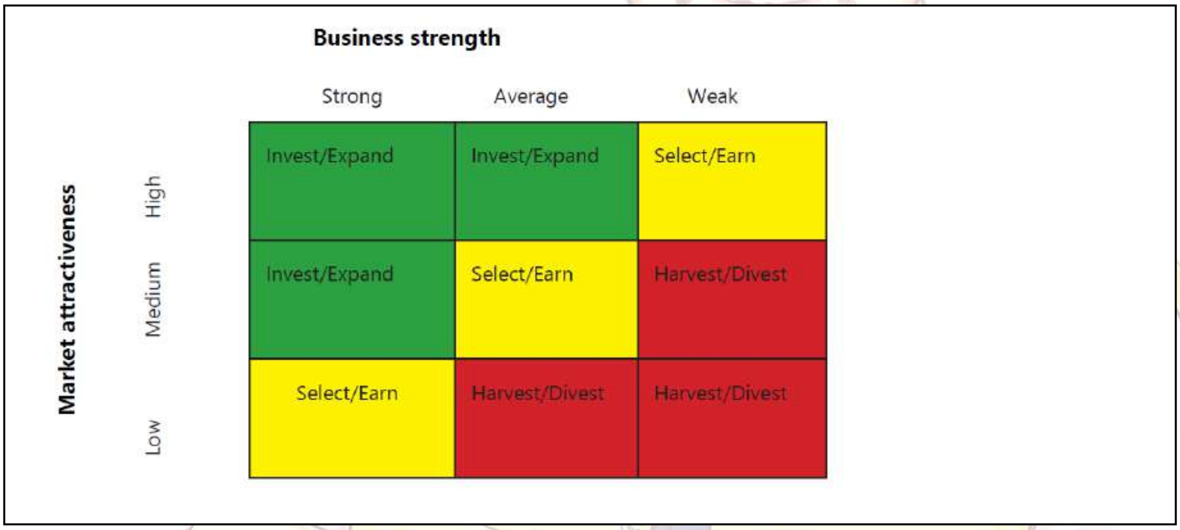
Answer

Comparison with BCG Matrix

GE model is similar to the BCG growth-share matrix. However, there are differences.

- Firstly, market attractiveness replaces market growth as the dimension of industry attractiveness and includes a broader range of factors other than just the market growth rate.
- Secondly, competitive strength replaces market share as the dimension by which the competitive position of each SBU is assessed.

Matrix – Pictorial Presentation



Explanation of Matrix

1. If a product falls in the green section, the business is at advantageous position. To reap the benefits, the strategic decision can be to expand, to invest and grow.
2. If a product is in the amber or yellow zone, it needs caution and managerial discretion is called for making the strategic choices.
3. If a product is in the red zone, it will eventually lead to losses that would make things difficult for organisations. So, the appropriate strategy should be retrenchment, divestment or liquidation.

Question 27

Explain "Environmental and Organisational Analysis" w.r.t. stages of strategic management.

Answer

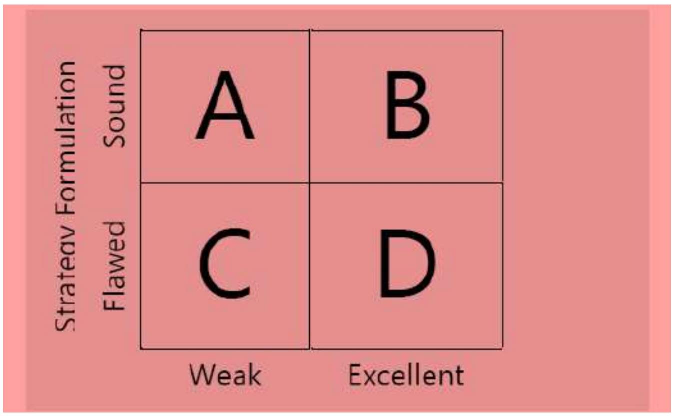
Environmental Scanning
The external environment of a firm consists of economic, social, technological, market and other forces which affect its functioning. The firm's external environment is dynamic and uncertain. So, the management must systematically analyse various elements of environment to determine opportunities and threats for the firm in future.
Organisational Analysis
Organisational analysis involves a review of financial resources, technological resources, productive capacity, marketing and distribution effectiveness, research and development, human resource skills and so on. This would reveal organisational strengths and weaknesses which could be matched with the threats and opportunities in the external environment. This would provide us a framework for SWOT analysis (Strength, Weakness, Opportunity and Threat).

Question 28

How are Strategy Formulation and Implementation are connected, give explanation via their matrix.

Answer

Strategy Formulation and Implementation Matrix

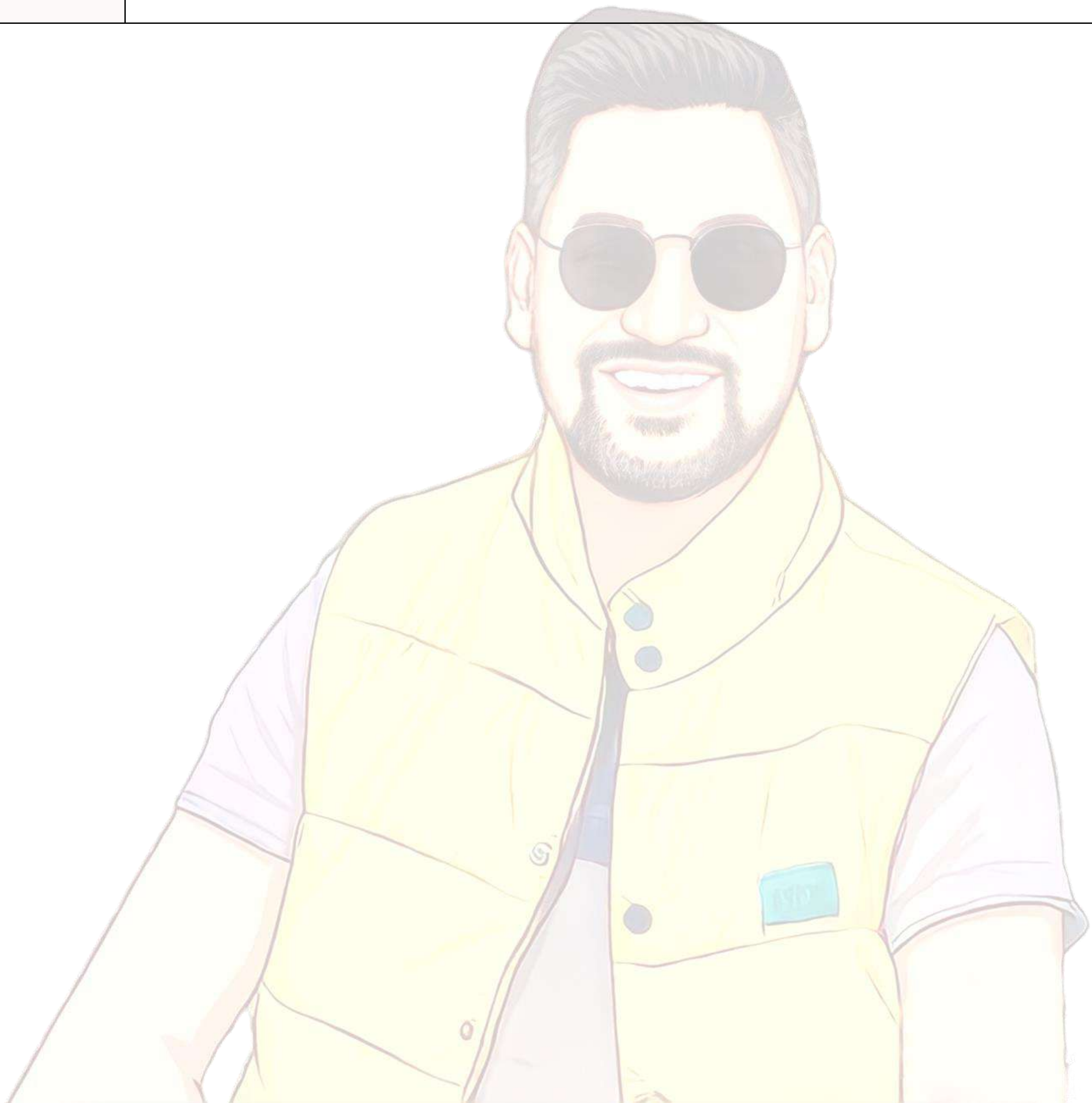


Explanation of the Matrix

The matrix represents various combinations of strategy formulation and implementation. It depicts the distinction between sound/ flawed strategy formulation and excellent/ weak strategy implementation.

Square A	*Square A is the situation where a company apparently has formulated a very competitive strategy but is showing difficulties in implementing it successfully. This can be due to various factors, such as the lack of experience (e.g. for startups), the lack of resources, missing leadership and so on. In such a situation, the company will aim at moving from square A to square B, given they realize their implementation difficulties.*
Square B	*Square B is the ideal situation where a company has succeeded in designing a sound and competitive strategy and has been successful in implementing it.*
Square C	*Square C denotes the companies that haven't succeeded in coming up with a sound strategy formulation and in addition are bad at implementing their flawed strategic model. Their path to success goes through business model redesign and implementation/*

	execution readjustment.
Square D	*Square D is the situation where the strategy formulation is flawed, but the company is showing excellent implementation skills. When a company finds itself in square D the first thing, they have to do is to redesign their strategy before readjusting their implementation/ execution skills.*



Question 29

What are the 3 stages as per Kurt Lewin's Model of Change, name them.

Explain 3 methods proposed by H. C. Kellman to reassign new pattens of behavior.

Answer

Kurt Lewin's Model of Change

To make the change lasting, Kurt Lewin proposed three phases of the change process for moving the organization from the present to the future. These stages are

- ✓ unfreezing,
- ✓ changing and
- ✓ refreezing.

Changing to the new situation

Once the unfreezing process has been completed and the members of the organization recognise the need for change and have been fully prepared to accept such change, their behaviour patterns need to be redefined. H.C. Kellman has proposed three methods for reassigning new patterns of behaviour, which are compliance, identification and internalization.

Compliance	It is achieved by strictly enforcing the reward and punishment strategy for good or bad behaviour. Fear of punishment, actual punishment or actual reward seems to change behaviour for the better.
Identification	Identification occurs when members are psychologically impressed upon to identify themselves with some given role models whose behaviour they would like to adopt and try to become like them.
Internalization	Internalization involves some internal changing of the individual's thought processes in order to adjust to the changes introduced. They are given freedom to learn and adopt new behaviour to succeed in the new set of circumstances.

Question 30

What do you understand by Digital Transformation? How should an organization manage change during Digital Transformation?

Answer

Meaning
Digital transformation is a process of organizational change that enables an organization to use technology to create new value for customers, employees, and other stakeholders. It's a fundamental adjustment that can be challenging to identify and even more challenging to implement.
How to Manage Change During Digital Transformation?
Any organisation may find the work of digital transformation challenging. To ensure that a digital transition is effective, it must focus on following :

Specify the digital transformation's aims & objectives	*If everyone has a clear grasp of the goals, it will be easier to make sure that everyone is on the same page and pursuing the same aims. Thus, the intended outcome and precise objectives to be accomplished must be clearly defined.*
Always, always, always communicate	*It might be challenging for people to accept change and adjust to it. Thus, the organisation must routinely and honestly discuss the objectives of the digital transformation.*
Be ready for resistance	*Even when a change is for the better, it can be challenging for people to embrace it. Thus, there must be a strategy in place for dealing with any resistance that may arise.*
Implement changes gradually	*Changes should ideally be implemented gradually rather than all at once. Too much change at once should be avoided, this will give people time to become used to the new way of doing things.*
Offer assistance and training	*Organisation must provide guidance to workers in the new procedures, software applications, etc.*

Question 31

Name the Hard and Soft elements of Mckinsey 7S Model.

Answer

Hard Elements	Soft Elements
Strategy	Shared values
Structure	Style
System	Staff
	Skills

Question 32

Define the following briefly :

a. *Simple Structure*

b. *Functional Structure*

c. *Divisional Strcuture*

Answer

Simple Structure	A simple structure is an organizational form in which the owner-manager makes all major decisions directly and monitors all activities, while the company's staff merely serves as an executor. Simple organizational structure is most appropriate for companies that follow a single-business strategy and offer a line of products in a single geographic market.
Functional Structure	A functional structure groups tasks and activities by business function, such as production/ operations, marketing, finance/ accounting, research and development, and management information systems. The functional structure is used by larger companies and by companies with low levels of diversification.
Divisional Structure	A divisional structure splits the organization into self-contained units or divisions. Each unit has a divisional manager, who is responsible for performance and has authority over their division. Divisional organisation structure can be created on the basis of geographic area, product or service, customer.

Question 33

Moonlight Private Limited deals in multi-products and multi-businesses. It has its own set of competitors. It seems impractical for the company to provide separate strategic planning treatment to each one of its products or businesses.

As a strategic manager, suggest the type of structure best suitable for Moonlight Private Limited and state its benefits.

Answer

Moonlight Private Limited has a multi-product and multi-business structure where, each of these businesses has its own set of competitors. In the given case, Strategic Business Unit (SBU) structure would best suit the interests of the company.

It is impractical for an enterprise with a multitude of businesses to provide separate strategic planning treatment to each one of its products/ businesses. SBU concept helps a multi-business corporation in scientifically grouping its businesses into a few distinct business units. Products/ businesses within an SBU receive same strategic planning treatment and priorities.

Benefits of SBUs :

1. *Facilitates strategic management and control.*
2. *Determines accountability at the level of distinct business units.*
3. *Allows strategic planning to be done at the most relevant level within the total enterprise.*
4. *Makes the task of strategic review by top executives more objective and more effective.*
5. *Improves the allocation of resources.*

Question 34

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

Discuss the difference in leadership style of father and son.

Answer

Ramesh is a follower of transactional leadership style that focuses on designing systems and controlling the organization's activities. Such a leader believes in using authority of its office to exchange rewards, such as pay and status. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Yashpal is follower of transformational leadership style. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performance. Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

Question 35

W.r.t. Strategic Control, name the types of various control along with their sub types. Discuss in specific the Premise Control and Strategic Surveillance.

Answer

Types of Control	
1. Operational Control 2. Management Control 3. Strategic Control a. Premise Control b. Strategic Surveillance c. Special Alert Control d. Implementation Control	
Premise Control	Premise control is a tool for systematic and continuous monitoring of the environment to verify the validity and accuracy of the premises on which the strategy has been built.
Strategic Surveillance	Contrary to the premise control, the strategic surveillance is unfocussed. It involves general monitoring of various sources of information to uncover unanticipated information having a bearing on the organizational strategy. It involves casual environmental browsing.

Question 36

What do you understand by Strategic performance measures? Which factors must an organisation keep in mind while choosing the right Strategic performance measures?

Answer

SPM – Meaning	
Strategic performance measures are key indicators that organizations use to track the effectiveness of their strategies and make informed decisions about resource allocation. The measures provide a snapshot of the organization's performance, enabling leaders to assess whether their strategies are aligned with their goals and objectives and to make necessary adjustments to improve their performance.	
Choosing the Right Strategic Performance Measures	
In selecting the right measures, organizations should consider the following factors :	
Relevance	The measure should be relevant to the organization's goals and objectives and provide information that is meaningful.
Data Availability	The measure should be based on data that is readily available and can be collected and analyzed in a timely manner.
Data Quality	The measure should be based on high-quality data that is accurate and reliable.
Data Timeliness	The measure should be based on data that is current and up-to-date, enabling organizations to make informed decisions in a timely manner.

RSA

REGULAR BATCH FOR ALL

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02 Financial Management

03 Strategic Management

04 Advanced Accounts

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