J.K. SHAH® CLASSES | a Veranda Enterprise

CODE : FMSM P2531 MARKS : 100

CA INTERMEDIATE

FINANCIAL MANAGEMENT AND STRATEGIC MANAGEMENT

SYLLABUS : FULL TIME ALLOWED : 3 HOURS

SECTION A (FINANCIAL MANAGEMENT) (50 MARKS)

DIVISION A (MCQ)

CASE SCENARIO

Ashrav Machines Private Limited (AMPL) was started as Joint venture company in 2017 by a leading group head quartered at Mumbai, engaged into the business of automatic washing machine product segment. The company received state-of-the-art technological know-how from a well-known Japanese company named Suzutsu Inc which was its JV partner. The company had acquired superior technology through JV, and its sales were expected to grow at 10 per cent per annum. The Company has two types of customer base, retail customers and dealership customers. The company experienced a significant growth in its sales during the first 5 years of its operations, and its actual growth rate averaged about 30 per cent per annum. The company had cost and technological advantages, and therefore, could keep its prices significantly lower as compared to its competitors. Over this period, the company established its name, and its products became well-known in the market.

As the competition intensified in the washing machine market, and the general market slow-down conditions engulfed the entire economy, AMPL started experiencing a decline in its sales from the beginning of FY 2022. The company identified poor inventory management on the retail front like piling up of inventory stocks, very high import of raw material, high selling price, etc. & poor receivables management on the dealership front like poor credit policy & collection process, bad debts, etc. as a major issue causing financial problems and decline. The company decided to work out a plan to reduce the inventory levels and rejig the receivables process and come out with feasible solutions. The concerned leadership teams in the company presented the following plans:

(1) Exploring selling the washing machines at discounted price. The company plans to offer a 5% average discount on its current price thereby resulting in a discounted price of ₹ 15,675 per machine. However, this didn't create any significant impact on sales as expected. The previous studies on market behavior to price responses in this category of product suggested less sensitivity to price reduction or discounts in the lower range. However, a price reduction above 10 per cent indicated a significant association with the increase in demand. Using these findings as the basis of their argument, the marketing team proposed a plan to provide discounts of up to 12 per cent. It provided an estimate of about 1,000 units to be sold every quarter during the year after implementing the suggestion of proposed discount.

(2) Owing to the recent trends observed in the exchange-sales scheme in the television and other electronic segments, the company wants to explore this scheme for the washing machine segment as well. Upon subsequent research, the marketing team argued that there was a good chance of an exchange scheme becoming popular provided the customers were offered an attractive exchange scheme as most of the existing machines owned by the households did not have new features which the company's product offered. The marketing team gave an estimate of selling about 4,650 units in the next one year, provided the scheme offered, off-setting ₹ 3,000 to ₹ 4,000 of the prices to customers who purchase the company's

product in exchange for their existing machines. The actual deduction, however, would depend on the condition of the machines and for that, the company estimated that an average offset of ₹ 3,500 per machine would be needed.

(3) The third proposal pertains to an all-round reduction in inventory levels. If the production takes place as per the sales plan, the total inventory holding period of the company works out about 3½ months. Of this, the finished goods holding period alone is 2 to 2½ months. The company, therefore, must hold finished goods for this period to sell its products in the market. Recently, due to a slow-down in the market, this period had increased to 4 – 4½ months. As a result, the working capital requirements of the company have increased significantly. The company recently explored the possibility of selling the goods to its customers under a scheme which would deliver the machine after 1½ months of placing the order. A pilot test was carried out with a select group of customers. Based on the results of this pilot study, the proposed scheme would offer the following package to a customer: on paying an advance of ₹ 3,000, the customer could order the product which would be delivered after 1½ months of time. As per the terms and conditions of the scheme, the customer would pay ₹ 9,500 at the time of delivery of the product. Through this scheme, the customer would get a benefit of ₹ 4,500 for this waiting period. The field tests had indicated that a section of customers would not mind waiting for 1 to 1½ months and taking this benefit. The marketing team gave an estimate that about 400 machines could be sold per month through this scheme.

(4) The current dealership sales of the company are ₹ 3,65,00,000 and it has a present policy of extending 60 days credit but most of its dealers in the recent period have stretched payments and the average collection period was about 120 days. Ninety per cent of the firm's sales are on a credit basis. Out of this, 15 per cent is sold to the customers whose financial position is not very sound and the entire bad debt losses amount to about 2 per cent of sales to these customers. The cost of Sales is 80% and the current collection expenses amount to ₹ 5,00,000 per year. After consulting the marketing and accounting staff and analyzing the status of the competition, the company has decided to change its credit policy for the dealership customers.

Policy A : To offer cash discount to motivate customers to pay early. The new credit terms would be "2/15, net 60". A quick study of sample customers indicated that about two-thirds of them might like to avail cash discounts. This change in policy would not change the expected sales, but the average collection period is likely to be reduced to 80 days for the remaining customers. There will be no changes in bad debts, but the collection cost will be reduced by 30% to the existing collection expense.

Policy B : To relax its credit standards by 20 Days to expand its sales. This is expected to increase sales by 10 per cent. The marginal customers, which would also include new customers, are not expected to take advantage of cash discounts and are likely to continue to take on an average of 150 days to pay. In the case of these customers, bad debt losses are expected to increase to 2.5 per cent on the sales to financially unsound customers, which will remain the same in proportion. The company would enforce collections with more vigour and diligence. It is expected that collection expenses will increase by ₹ 1,00,000 per annum.

The company generally requires a rate of return of 15 per cent from its investments and assume 360 days in a year.

Based on the above case scenario, choose the correct answer to Q. Nos. 1 to 5.

1. Incremental benefit of adopting credit Policy A to the company is _________

(a) ₹ 6,24,500 (b) ₹ 58,500 (c) ₹ 46,57,450 (d) ₹ (-) 6,24,500

2. Incremental benefit of adopting credit Policy B to the company is _________

(a) ₹ 27,294 (b) ₹ 8,70,444 (c) ₹ 46,84,744 (d) ₹ 2,31,444

3. Evaluate all the proposed options of inventory management and select the best sequence as per their rankings based on benefit analysis to the company in the form of sales.

(a) Proposal 1, 2 & 3 (b) Proposal 2, 3 & 1

(c) Proposal 2, 1 & 3 (d) Proposal 3, 2 & 1

4. What are the bad debt expenses of policy A and policy B?

(a) ₹ 98,550 and ₹ 98,550 (b) ₹ 1,35,506 and ₹ 98,550

(c) ₹ 98,550 and ₹ 1,35,506 (d) ₹ 1,35,506 and ₹ 1,35,506

5. The optimum combination of inventory and credit policy comes out to be ________

(a) Proposal 3 & Credit Policy `A' (b) Proposal 3 & Credit Policy `B'

(c) Proposal 2 & Credit Policy `B' (d) Proposal 2 & Credit Policy `A'

(5*2=10 MARKS)

6. T Ltd. is looking for a capital project in order to replace its existing old machine. It got two proposals to consider; details of which are given below:

	Proposal X	*Proposal Y*
Initial investment	*₹ 6,50,000*	*₹ 7,80,000*
Estimated useful life	*5 Years*	*3 Years*
Annal cash inflows	*₹ 1,90,000*	*₹ 3,50,000*
Cost of capital	*10%*	*10%*

Year	*1*	*2*	*3*	*4*	*5*
$PVIF_{0.10, t}$	*0909*	*0.826*	*0.751*	*0.683*	*0.621*
$PVIFA_{0.10, t}$	*0.909*	*1.736*	*2.487*	*3.170*	*3.791*

What will be Equivalent Annual NPV for Proposal X and Proposal Y?

(A) ₹ 70,290.00, ₹ 90,450.00 (B) ₹ 18,541.28, ₹ 36,369.12

(C) ₹ 1,90,000.00, ₹ 3,50,000.00 (D) ₹ 77,326.73, ₹ 99,504.95

(2 MARKS)

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

(a) 21 lakhs (b) 30 lakhs (c) 37.50 lakhs (d) 40 lakhs

(2 MARKS)

8. Given:

Earnings available to the equity shareholders ₹ 30 Lakhs,

Cost of equity is 15%,

Debt outstanding ₹ 150 Lakhs

Value of the firm will be –

(a) ₹ 200 Lakhs (b) ₹ 250 Lakhs (c) ₹ 350 Lakhs (d) ₹ 300 Lakhs

(1 MARKS)

(15 MARKS)

DIVISION B (DESCRIPTIVE)

[Q-1 IS COMPULSORY. ANSWER ANY TWO FROM THE REST.]

Q-1.(a) M Ltd. belongs to a risk class for which the capitalization rate is 12%. It has 40,000 outstanding shares and the current market price is ₹ 200. It expects a net profit of ₹ 5,00,000 for the year and the Board is considering dividend of ₹ 10 per share.

M Ltd. requires to raise ₹ 10,00,000 for an approved investment expenditure. ILLUSTRATE, how the MM approach affects the value of M Ltd. if dividends are paid or not paid.

(5 MARKS)

Q-1.(b) Following information relates to MNP Limited for the year ended on 31sMarch, 2024:

Inventory turnover ratio (based on cost of goods sold)	*7.5 times*
Total assets turnover ratio	*2.5 times*
Long term debt to Shareholders' fund	*0.6:1*
Debtors collection period	*30 days*
Gross profit ratio	*25% on sales*
Current Ratio	*2.9:1*

Balance Sheet as on 31st March,2024

Liabilities	*₹*	*Assets*	*₹*
Equity share capital	*6,00,000*	*Fixed Assets*	*?*
Reserves & Surplus	*3,00,000*	*Inventories*	*?*
Long term debt	*?*	*Debtors*	*?*
Creditors	*3,00,000*	*Cash*	*?*
Total		*Total*	

You are required to complete the Balance Sheet of MNP Limited as on 31st March,2024. Assume a 360 days year and all sales are credit sales.

(5 MARKS)

Q-1.(c) CALCULATE the operating leverage, financial leverage and combined leverage from the following data under Situation I and II and Financial Plan A and B:

Installed Capacity	4,000 units
Actual Production and Sales	75% of the Capacity
Selling Price	₹ 30 per unit
Variable Cost	₹ 15 per unit

Fixed Cost:

Under Situation I	₹ 15,000
Under Situation-II	₹ 20,000

Capital Structure:

	Financial Plan	
	A (₹)	**B (₹)**
Equity	10,000	15,000
Debt (Rate of Interest at 20%)	10,000	5,000
	20,000	20,000

(5 MARKS)

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

Raw Material Cost	Rs 40 per unit
Direct Wages Cost	Rs 25 per Unit

Overhead	Rs 40 per Unit (Incl Rs 10 of Depreciation)
Selling Price	Rs 150 per unit
GP Ratio (Cash Cost)	30%
Net Profit Ratio	25% (On Total cost)
Raw Material in Stock	Avg of 30 days consumption
Work in Progress Stock at 30% of FG Produced Units	****Valued at Prime Cost** Material – 90% into process
	Relevant Conversion Cost – 60% completed
Finished Goods Stock	2,500 units
Credit Allowed by the supplier	30 Days
Credit Allowed to Purchasers	45 Days
Direct Wages [Lag in payment]	15 Days
Expected Cash Balance	1,25,000

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

(6 MARKS)

Q-2.(b) Capital structure (in market-value terms) of AN Ltd is given below:

Company	Debt	Equity
AN Ltd.	50%	50%

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

Required:

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

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

(4 MARKS)

Q-3. HCP Ltd. is a leading manufacturer of railway parts for passenger coaches and freight wagons. Due to high wastage of material and quality issues in production, the General Manager of the company is considering the replacement of machine A with a new CNC machine B. Machine A has a book value of ₹ 4,80,000 and remaining economic life is 6 years. It could be sold now at ₹ 1,80,000 and zero salvage value at the end of sixth year. The purchase price of Machine B is ₹ 24,00,000 with economic life of 6 years. It will require ₹ 1,40,000 for installation and ₹ 60,000 for testing. Subsidy of 15% on the purchase price of the machine B will be received from Government at the end of 1st year. Salvage value at the end of sixth year will be ₹ 3,20,000.

The General manager estimates that the annual savings due to installation of machine B include a reduction of three skilled workers with annual salaries of ₹ 1,68,000 each, ₹ 4,80,000 from reduced wastage of materials and defectives and ₹ 3,50,000 from loss in sales due to delay in execution of purchase orders. Operation of Machine B will require the services of a trained technician with annual salary of t 3,90,000 and annual operation and maintenance cost will increase by ₹ 1,54,000. The company's tax rate is 30% and it's required rate of return is 14%. The company follows straight line method of depreciation. Ignore tax savings on loss due to sale of existing machine.

The present value factors at 14% are:

Years	0	1	2	3	4	5	6
PV Factor	1	0.877	0.769	0.675	0.592	0.519	0.456

Required:

(i) Calculate the Net Present Value and Profitability Index and advise the company for replacement decision.

(ii) Also calculate the discounted pay-back period.

(10 MARKS)

Q-4.(a) Explain the Environmental, Social and Governance linked Bonds.

(4 MARKS)

Q-4.(b) Briefly EXPLAIN the following –

i. Fully Hedged Bonds
ii. Medium Term Notes
iii. Floating Rate Notes
iv. Euro Commercial Papers

(4 MARKS)

Q-4.(c) "XYZ Corp. has adopted a strategy to maximize short-term profits by increasing product prices significantly. ANALYZE why this might not be a feasible operational criterion for sustainable growth."

OR

Q-4.(c) DEFINE Modified Internal Rate of Return method.

(2 MARKS)

SECTION B (STRATEGIC MANAGEMENT) (50 MARKS)

DIVISION A (MCQ)

CASE SCENARIO

Primo Neo Logistics (PNL) is engaged in transportation of goods in India. It has its operational presence across the country since the year 2010. In addition to transporting goods by road, company is also taking services of private airways as its logistics partner. However, there is a sharp decline in business through airways as sales and profits have declined steeply.

Company also wants to ascertain the market positions of rival companies having similar competitive approaches in the market with the intent to identify the strongest or the weakest players in view of the tough competitive landscape. Once the market position is ascertained, company would like to modify its strategy to adapt according to the changing circumstances.

Technology, means and ways of transporting goods are also changing. Company wants to utilize its resources and capabilities, not only to compete and survive but to grow efficiently. Multidimensional expansion with new and improved means of transportation and marketing seems inevitable. Company has strong presence in transporting goods by road and wants to collaborate with some other operator who can bring expertise in transporting goods using improved technology.

Cargo Movers Plc. (CMP) is a well-known transporter of goods using state of art technology in the Asia Pacific region. Banking upon their respective core competencies, PNL and CMP would like to develop close and collaborative relationship where both will continue to maintain their respective independent existence. Once collaboration is in place, marketing team of both the companies would like to cater to the needs of transporting goods with speed and agility. In line with basic principles, the team will also focus on best long- run performance of the marketing system. In view of the same the team is planning to rope in various social media influencers with intent to create a brand image with customer orientation and spreading a word about its distinctive services to its present and prospective customers.

Based on the above case scenario, choose the correct answer to Q. Nos. 1 to 5.

1. The business through private airways is at which phase of product life cycle?

(A) Introduction (B) Growth (C) Maturity (D) Decline

2. Tool for identifying the strongest and weakest competitors is known as:

(A) Strategic Group Mapping (B) Portfolio Analysis

(C) Strategic Surveillance (D) Strategic Audit

3. The strategy being followed by PNL is:

(A) Adaptive strategy (B) Proactive strategy

(C) Reactive strategy (D) Blend of proactive and reactive strategy

4. Relationship being considered between PNL and CMP is indicating:

(A) Horizontal Integration (B) Merger and Acquisition

(C) Strategic Alliance (D) Vertical Integration

5. The activity of marketing team will be called as:

(A) Enlightened marketing (B) Augmented marketing

(C) Differential marketing (D) Synchro marketing

(5*2=10 MARKS)

6. A multinational corporation is debating whether to invest significant time and resources into developing a new strategic plan. Some argue it diverts attention from current operations, while others believe it is essential for long-term success. Despite being resource-intensive, it remains crucial for sustained growth. What does this situation best illustrate?

(a) Strategic management ensures immediate profitability

(b) Strategic management is time-consuming but necessary

(c) Operational efficiency is more important than strategic planning

(d) Short-term focus leads to long-term success

(2 MARKS)

7. Super Products Ltd. is having four divisions, i.e. Alpha, Beta, Cos and Theta. All the divisions are independent product center and are also integral part of product Gama of the company. Each division contains its own set of activities under the control of respective general manager. Each general manager is responsible for his respective product line and its profitability. While having own set of competitors, each center has its own competitive advantages with the resources and capabilities they develop. Such structure is known as:

(A) Network structure (B) Divisional structure

(C) Multi divisional structure (D) Strategic business unit

(2 MARKS)

8. Urbankey has a unique capability in rapid prototyping, allowing them to bring new products to market faster than the competitors. Such an advantage can be termed as?

(a) Market Expansion Strategy (b) Core Competency

(c) Cost Leadership Strategy (d) Appropriate SWOT Analysis

(1 MARKS)

(15 MARKS)

DIVISION B (DESCRIPTIVE)

[Q-1 IS COMPULSORY. ANSWER ANY TWO FROM THE REST.]

Q-1.(a) SemiCon Pvt. Ltd. (SPL) is engaged in manufacturing of semiconductors from the year 2024. Company wants to start a strategic path to be followed in future so as to build best quality semiconductor and display design with innovative ecosystem to enable India's emergence as a global hub for electronics manufacturing in a more structured manner. Placing core values as its priority, it would like to clearly articulate its aspirations to the stakeholders with a guiding beacon to keep inspiring its workforce.

Identify and explain one of the components of strategic intent which will help indicate towards above stated intentions. Why such component is important for a successful organization? Also state the essentials of such component.

(5 MARKS)

Q-1.(b) The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO.

(5 MARKS)

Q-1.(c) GreenEdge Solutions, a mid-sized technology company, has implemented a new strategic plan focused on achieving sustainable growth and strengthening its market presence. The leadership team is determined to monitor the effectiveness of their strategies to ensure they align with the organization's overall goals and objectives. They seek a systematic approach to assess key performance areas critical to their success. What are Strategic Performance Measures (SPM), and how can GreenEdge Solutions effectively use them to evaluate and enhance the success of their strategic plan?

(5 MARKS)

Q-2.(a) As per one of the five forces of competition, Michael Porter stated that the more intensive is the rivalry, the less attractive is the industry. In view of this, explain the conditions in which rivalry among competitors tends to be cut throat and industry profitability is low.

(5 MARKS)

Q-2.(b) Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

(5 MARKS)

Q-3.(a) Orion Tech Solutions Pvt. Ltd. is renowned for its ability to launch groundbreaking software products. Despite the relaxed and casual work environment at Orion, there is a strong commitment to meeting deadlines. Employees at Orion believe in the "work hard, play hard" ethic. The company has shifted from a formal, hierarchical structure to a more results-oriented approach. Employees are deeply committed to the company's strategies and work diligently to achieve them. They safeguard innovations and maintain strict confidentiality and secrecy in their operations. Their work culture is closely aligned with the organization's values, practices, and norms. What aspects of an organization are being discussed? Explain.

(5 MARKS)

Q-3.(b) M/s. MTS Ltd, is one of the mobile telephone service providers in India. It has its own mobile network, towers and distribution channels. It operates through its team of network operation, technicians, marketing, sales and after sales services. Currently all the team members are on its roll.

Company knows that market is densely competitive. The environment is quite unstable and likely to remain so. Customer's taste and preferences are changing very fast. There is a strong need for innovation and quick response. While eliminating in-house business functions, company is considering outsourcing major activities and focusing on its core competencies.

In the given situation identify the organizational structure suitable for the company. Also outline the merits and demerits in going for the identified structure.

(5 MARKS)

Q-4.(a) What are channels? Why is channel analysis important? Explain the different types of channels?

(5 MARKS)

Q-4.(b) How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively?

OR

Q-4.(b) Distinguish between Concentric Diversification and Conglomerate Diversification.

(5 MARKS)

-0-0-0-0-0-0-0-0-0-0-