Intermediate Course: Group – II **(Mock Test Paper : 1)**
DATE: 11.08.2024 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER – 6A : FINANCIAL MANAGEMENT

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

PART I – CASE SCENARIO BASED MCQs (15 Marks)

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

Q. 1 to Q. 5:
CASE SCENARIO
Following is the abridged Balance Sheet of A Ltd. (2023) :-

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital	1,00,000	Land and Buildings		80,000
Profit and Loss Account	17,000	Plant and Machineries	50,000	
Current Liabilities	40,000	Less: Depreciation	15,000	35,000
				1,15,000
		Stock	21,000	
		Receivables	20,000	
		Bank	1,000	42,000
Total	1,57,000	Total		1,57,000

With the help of the additional information furnished below, you are required to prepare Trading and Profit & Loss Account and a Balance Sheet as at 31st March, 2024:

(i) The company went in for reorganisation of capital structure, with share capital remaining the same as follows:

Share capital	50%
Other Shareholders' funds	15%
5% Debentures	10%
Payables	25%

Debentures were issued on 1st April, interest being paid annually on 31st March.

(ii) Land and Buildings remained unchanged. Additional plant and machinery has been bought and a further Rs. 5,000 depreciation written off.
(The total fixed assets then constituted 60% of total fixed and current assets.)

(iii) Quick assets ratio was 1 : 1.

(iv) The receivables (four-fifth of the quick assets) to sales ratio revealed a credit period of 2 months. There were no cash sales.

(v) Return on net worth was 10%.

(vi) Gross profit was at the rate of 15% of selling price.
Ignore Taxation

1. Calculate amount of purchase of plant and machinery during the year
   (a) 10,000
   (b) 15,000
   (c) 25,000
   (d) 20,000

2. Calculate working capital and working capital ratio
   (a) 30,000, 8 : 5
   (b) 15,000, 8 : 5
   (c) 45,000, 4 : 3
   (d) 45,000, 2 : 1

3. Calculate inventory turnover ratio
   (a) 5 times
   (b) 8 times
   (c) 4 times
   (d) 6.8 times

4. Calculate interest on debenture of the year
   (a) 500
   (b) 1,000
   (c) 1,500
   (d) 2,000

5. Calculate amount of total sales
   (a) 2,40,000
   (b) 2,04,000
   (c) 3,60,000
   (d) 1,80,000

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

6. From the following financial data, compute stock turnover ratio and stock velocity (assume 360 days in a year)
   Opening stock: ₹ 58,000
   Purchases: ₹ 5,02,000
   Return outwards: ₹ 18,000
   Sales : ₹ 6,53,000
   Return inwards: ₹13,000
   Gross profit: 1/3 on Cost
   Choose the correct option
   (a) 8 times; 45.62 days
   (b) 8 times; 45 days
   (c) 10.67 times; 33.75 days
   (d) 7.74 times; 46.51 days

(2 Marks)

7. Nikon Enterprises just paid an annual dividend of ₹ 1.56 per share. This dividend is expected to increase by 3 percent annually. Currently, the firm has a beta of 1.13 and a stock price of ₹ 28 a share. What is your best estimate of Nikon's cost of equity?
   (a) 8.74 per cent
   (b) 11.48 per cent
   (c) 9.72 per cent
   (d) 10.11 percent

(2 Marks)

8. Company A and Company B both calculate their market price by using Walter's formula. Both companies will have the same market price if –
   (a) Ra>RC and retention ratio of Company A is more than retention ratio of Company B.
   (b) Ra<Rc and retention ratio of Company B is more than retention ratio of Company A.
   (c) Ra=Rc whether retention ratio is same or different for both the companies.
   (d) All of the above

(1 Mark)

PART II – DESCRIPTIVE QUESTIONS (35 Marks)
Question No. 1 is Compulsory.
Attempt any two questions out of the remaining three questions.

Question 1:

(a) From the following details of X Ltd., PREPARE the Income Statement for the year ended 31st March, 2024:

Financial Leverage	2
Interest	Rs. 5,000
Operating Leverage	3
Variable cost as a percentage of sales	75%
Income tax rate	30%

(5 Marks)

(b) Mr. Mohit had purchased a share of Alpha Limited for Rs. 10,000. He received dividend for a period of five years at the rate of 10 percent. At the end of the fifth year, he sold the share of Alpha Limited for Rs. 11,280. You are required to compute the cost of equity as per realised yield approach.

(5 Marks)

(c) Sitaram Steels Limited requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project – by raising debt of Rs. 2,50,000 or Rs. 10,00,000 or Rs. 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at Rs. 150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs. 10,00,000. The funds can be borrowed at the rate of 10 percent upto Rs. 2,50,000, at 15 percent over Rs. 2,50,000 and upto Rs. 10,00,000 and at 20 percent over Rs. 10,00,000. The tax rate applicable to the company is 40 percent. ANALYSE which form of financing should the company choose?

(5 Marks)

Question 2:

C Ltd. is preparing a cash flow forecast for the three months period from January to the end of March. The following sales volumes have been forecasted:

Months	December	January	February	March	April
Sales (units)	1,800	1,875	1,950	2,100	2,250

Selling price per unit is Rs. 600. Sales are all on one month credit. Production of goods for sale takes place one month before sales. Each unit produced requires two units of raw materials costing Rs. 150 per unit. No raw material inventory is held. Raw materials purchases are on one month credit. Variable overheads and wages equal to Rs. 100 per unit are incurred during production and paid in the month of production. The opening cash balance on 1st January is expected to be Rs. 35,000. A long term loan of Rs. 2,00,000 is expected to be received in the month of March. A machine costing Rs. 3,00,000 will be purchased in March.

(a) Prepare a cash budget for the months of January, February and March and calculate the cash balance at the end of each month in the three months period.

(b) Calculate the forecast current ratio at the end of the three months period.

(10 Marks)

Question 3:

(a) Company X is forced to choose between two machines A and B. The two machines are designed differently, but have identical capacity and do exactly the same job. Machine A costs Rs. 1,50,000 and will last for 3 years. It costs Rs. 40,000 per year to run. Machine B is an 'economy' model costing only Rs. 1,00,000, but will last only for 2 years, and costs Rs. 60,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10 per cent. Which machine company X should buy?

(6 Marks)

(b) The following information pertains to TR Ltd.

Earnings of the Company	Rs. 50,00,000
Dividend Payout ratio	60%
No. of shares outstanding	10,00,000
Equity capitalization rate	12%
Rate of return on investment	15%

(i) COMPUTE the market value per share as per Walter's model?

(ii) COMPUTE the optimum dividend payout ratio according to Walter's model and the market value of Company's share at that payout ratio?

(4 Marks)

Question 4:

(i) EXPLAIN the followings:

(a) Floating Rate Bonds

(b) Packing Credit.

(6 Marks)

(ii) "Financial Leverage is a double-edged sword" DISCUSS.

(4 Marks)

PAPER – 6B : STRATEGIC MANAGEMENT

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

PART I – CASE SCENARIO BASED MCQs (15 Marks)

Q. 1 to Q. 5:
CASE SCENARIO

Connect Private Limited, a Mumbai based company is launching a smartphone, under the brand name of Poppy. The company recognizes plethora of options that customers have from Chinese manufacturers flooding the smartphone landscape. With recent COVID-19 pandemic hurting the global sentiment towards Chinese products, the company plans to play on the patriotic card and advertise Poppy as the "Desi" smartphone of India.

Strategic Arm of the company undertook an industry analysis and reported, that, budget phone segment was overtaken by the Chinese brands completely, however, the low segment of smartphones was still open for exploration. Thus, the company planned to enter the market with two models, Poppy A and Poppy B, priced at ₹ 4,499 and ₹ 5,499.

The company is also aware that their product can easily be imitated at same costing as well as pricing, and thus the very essence of their product can be lost. A team of marketing professionals was hired to tackle this issue. The solution they suggested was to take the first mover advantage by spending huge sums in advertising and promotion.

Based on sound consciousness of the competition from huge money backed international players, the company decided to manufacture smartphone covers and accessories with the same "desi" tag, along with Poppy Smartphones. This shall help them mitigate the risk of being completely thrown out of business. Consequently, they invested a fairly good amount in manufacturing of these accessories.

The investors made it an objective for the team to reach an annual sales volume of 15,000 handsets and 70,000 pieces of accessories. The accessories sales surpassed the expectations by a fairly good margin. However, Poppy A and Poppy B did not receive the much anticipated response and the leadership decided to reduce the scope and focus purely on accessories business going forward.

With a new focus on accessories production, the "Desi" tag will still play an important part in the success. However, they need to ensure creation of strong barriers to entry for other domestic players, and for that, they have plans to augment the production to enormous levels. This shall reduce their unit cost, thus, enable volume driven cost leadership.

Based on the above case scenario, answer the multiple choice questions.

1. Connect Private Limited, entered a saturated market of smartphones, after a due market study of understanding the competitive landscape. Put the below steps in correct sequence of understanding the competitive landscape.
   (I) Understanding the competitors
   (II) Determining strengths and weaknesses of the competitors
   (III) Identify the competitors
   (IV) Put all information gathered together
   (a) (I),(III),(II),(IV)
   (b) (III),(I),(II),(IV)
   (c) (II),(III),(IV),(I)
   (d) (I),(III),(II),(IV)

2. Annual sales volume as an objective by the investors was crucial to establish the company in the market. In which stage of strategic management are such annual objectives especially important?
   (a) Formulation
   (b) Control
   (c) Evaluation
   (d) Implementation

3. Following the sales numbers reported at the end of year, the leadership took a serious strategic stand point to move forward and shift to a new core business which was more profitable. Under which of the following category of business strategy can this decision be categorized?
   (a) Retrenchment strategy
   (b) Strategic alliance
   (c) Diversification strategy
   (d) Market development

4. After getting results from the market, accessories business of the company can be classified under which category of BCG's growth share matrix?
   (a) Star
   (b) Question mark
   (c) Cash cow
   (d) Dog

5. The phase two of shifting the business focus to peripheral accessories production, Connect Private Limited has planned setting up entries to barrier for its potential competitors. Which of the following barrier have they planned to implement?
   (a) Capital requirement
   (b) Product differentiation
   (c) Access to distribution channels
   (d) Economies of scale

MCQ [5 MCQ of 2 Marks Each : Total 10 Marks]

6. After an earnest attempt to bring in a strategic change in your organization, you the operational head of XYZ ltd, succeeded but still your organization couldn't achieve the desired competitive position in the market. Out of the following what could be the reason?
   (a) Strategy formulation
   (b) Strategy model
   (c) Strategy implementation
   (d) Strategy decision

(2 Marks)

7. Abhishek a freelancer writes promotional materials. He decided to collaborate without requiring physical presence of employee, and hired virtual assistants to transcribe voice mail, update his website, and design PowerPoint graphics. What kind of structure is he using for his business?
   (a) Functional structure
   (b) Divisional structure
   (c) Network structure
   (d) Multi-divisional structure

(2 Marks)

8. Beta Company, a car manufacturer is buying up a supplier so that it gets a dedicated supplier with both guaranteed quality and price. The material could be manufactured when required by Beta Company leading to lower inventory levels.
Which strategy has Beta Company adopted?
(a) Backward integration
(b) Forward integration
(c) Conglomerate diversification
(d) Horizontal integrated diversification

(1 Marks)

PART II – DESCRIPTIVE QUESTIONS (35 Marks)
Question No. 1 is Compulsory.
Attempt any two questions out of the remaining three questions.

Question 1:

(a) To which industries the following developments offer opportunities and threats? "Increasing trend in India to organize IPL (Cricket) type of tournaments in other sports also."

(5 Marks)

(b) Rajiv Arya is owner of an electrical appliance company that specializes in manufacturing of domestic vacuum cleaners. There are four other manufacturers with similar products and sales volume. Current rival firms also own a number of patents related to the product. The supplier base for procurement of raw material is also very large as there are multiple suppliers.
Identify Porter's Five Forces that may be classified as significant for the company? Explain.

(5 Marks)

(c) GWA, a leading Japan based automobile company decides to make India a hub for the company's 250 cc motorcycle to be manufactured in collaboration with the TPR Group, a leading Indian motorcycle manufacturer. The production is to be exported to the company's home market as well as to other African countries.
What is this growth strategy called? Point out the most important advantages both the companies expect from such strategy/collaboration.

(5 Marks)

Question 2:

(a) ABC Limited is in a wide range of businesses which include apparels, lifestyle products, furniture, real estate and electrical products. The company is looking to hire a suitable Chief Executive Officer. Consider yourself as the HR consultant for ABC limited. You have been assigned the task to enlist the activities involved with the role of the Chief Executive Officer. Name the strategic level that this role belongs to and enlist the activities associated with it.

(5 Marks)

(b) To convert strategic plans into actions and results, a manager must be able to direct organizational change, motivate people, build and strengthen company competencies and competitive capabilities, create a strategy-supportive work climate, and meet or beat performance targets.
Explain the principal aspects of strategy-execution process.

(5 Marks)

Question 3:

(a) With the global economic recession Soft Cloth Ltd. incurred significant losses in all its previous five financial years. Currently, they are into manufacturing of cloth made of cotton, silk, polyster, rayon, lycra and blends. Competition is also intense on account of cheap imports. The company is facing cash crunch and has not been able to pay the salaries to its employees in the current month.
Suggest a grand strategy that can be opted by Soft Cloth Ltd.

(5 Marks)

(b) A differentiation strategy may help to remain profitable even with rivalry, new entrants, suppliers' power, substitute products, and buyers' power. Explain.

(5 Marks)

Question 4:

(a) A company's performance depends heavily on execution of strategy. Executives in a variety of business should explore about utilizing strategic performance measurement, as it offers a continue system of for tracking performance.
In light of above, explain different methods to evaluate performance.

(5 Marks)

(b) Strategic uncertainty refers to the unpredictability & unpredictability of future events & circumstances that can impact an organisation's strategy & Goals. Organisation needs to work over several factors to deal with uncertainty of environment.
Explain those factors.

(5 Marks)

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