Intermediate Course: Group – II **(Mock Test Paper : 2)**
DATE: 30.08.2024 **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
Akash Ltd. has total sales of Rs. 3.2 crores and its average collection period is 90 days. The past experience indicates that bad-debt losses are 1.5% on sales. The expenditure incurred by the firm in administering its receivable collection efforts are Rs. 5,00,000 p.a.. A factor is prepared to buy the firm's receivables by charging 2% commission. The factor will pay advance on receivables to the firm at an interest rate of 18% p.a. after withholding 10% as reserve.
Consider year as 360 days.

1. What is average level of receivables of the company?
   (a) Rs. 80,00,000
   (b) Rs. 78,90,410
   (c) Rs. 44,44,400
   (d) Rs. 71,11,100 **(2 Marks)**

2. How much advance factor will pay against receivables?
   (a) Rs. 70,56,000
   (b) Rs. 70,40,000
   (c) Rs. 72,00,000
   (d) Rs. 80,00,000 **(2 Marks)**

3. What is the annual cost of factoring to the company?
   (a) Rs. 8,83,200
   (b) Rs. 4,76,800
   (c) Rs. 19,07,200
   (d) Rs. 4,00,000 **(2 Marks)**

4. What is the annual saving to the company on taking factoring service without adjusting cost of factoring?
   (a) Rs. 2,45,000
   (b) Rs. 4,26,600
   (c) Rs. 3,50,000
   (d) Rs. 9,80,000 **(2 Marks)**

5. What is the effective cost of factoring on advance received?
   (a) 16.09%
   (b) 13.31%
   (c) 13.79%
   (d) 15.89%

(2 Marks)

6. Net income of a company before tax is 100 lakhs. Tax rate is 25%. 12% preference share capital is Rs. 100 lakhs. The number of equity shares is 1,40,000. The P/E ratio of the company is 8.50 times. Earnings per share and market value per share would be
   (a) ₹ 45 & ₹ 382.50 respectively
   (b) ₹ 45 & ₹ 308.20 respectively
   (c) ₹ 33.16 & ₹ 281.86 respectively
   (d) ₹ 45 & ₹ 5.29 respectively

(2 Marks)

7. Debt as a percentage of the total capital of Tiger Ltd. is 60%. Its cost of equity is 24% and the pre-tax cost of debt is 20%. The tax rate is 50%. What is the overall cost of capital of Tiger Ltd.?
   (a) 14.6%
   (b) 13.6%
   (c) 17.6%
   (d) 15.6%

(2 Marks)

8. For reducing and controlling working capital requirement which of the following step is required to be taken –
   (a) Increase in manufacturing cycle
   (b) Increase of credit period allowed by creditors to the extent that does not affect the production.
   (c) Increase in credit period given to customers
   (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) Manoj Pvt. Ltd. has made plans for the next year 2023-24. It is estimated that the company will employ total assets of Rs. 25,00,000; 30% of assets being financed by debt at an interest cost of 9% p.a. The direct costs for the year are estimated at Rs. 15,00,000 and all other operating expenses are estimated at Rs. 2,40,000. The sales revenue are estimated at Rs. 22,50,000. Tax rate is assumed to be 40%. Required to calculate:
   (i) Net profit margin (After tax);
   (ii) Return on Assets (After tax);
   (iii) Asset turnover; and
   (iv) Return on Equity.

(5 Marks)

(b) Prakash Limited provides you the following information:

	(Rs)
Profit (EBIT)	2,80,000
Less: Interest on Debenture @ 10%	(40,000)
EBT	2,40,000
Less Income Tax @ 50%	(1,20,000)
	1,20,000
No. of Equity Shares (Rs. 10 each)	30,000
Earnings per share (EPS)	4
Price /EPS (PE) Ratio	10

The company has reserves and surplus of Rs. 7,00,000 and required Rs. 4,00,000 further for modernisation. Return on Capital Employed (ROCE) is constant. Debt (Debt/Debt + Equity) Ratio higher than 40% will bring the P/E Ratio down to 8 and increase the interest rate on additional debts to 12%. You are required to ASCERTAIN the probable price of the share.

(i) If the additional capital are raised as debt; and

(ii) If the amount is raised by issuing equity shares at ruling market price.

(5 Marks)

(C) From the following financial data of Company A and Company B: Prepare their Income Statements.

	Company A (Rs.)	**Company B (Rs.)**
Variable Cost	56,000	60% of sales
Fixed Cost	20,000	-
Interest Expenses	12,000	9,000
Financial Leverage	5 : 1	-
Operating Leverage	-	4 : 1
Income Tax Rate	40%	40%
Sales	-	1,05,000

(5 Marks)

Question 2:

The following is the capital structure of Seema Company Ltd. as on 31.12.2023:

	(Rs.)
Equity shares : 10,000 shares (of Rs. 100 each)	10,00,000
10% Preference Shares (of Rs. 100 each)	4,00,000
12% Debentures	6,00,000
	20,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared for the year 2024. The dividend growth rate is 6%:

(i) If the company is in the 50% tax bracket, compute the weighted average cost of capital using market value.

(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 10 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

(10 Marks)

Question 3:

(a) A hospital is considering to purchase a X-Ray machine costing Rs. 80,000. The projected life of the machine is 8 years and has an expected salvage value of Rs. 6,000 at the end of 8 years. The annual operating cost of the machine is Rs. 7,500. It is expected to generate revenues of Rs. 40,000 per year for eight years. Presently, the hospital is outsourcing the X-Ray work and is earning commission income of Rs. 12,000 per annum; net of taxes. Tax Rate is 30%.

Required:

Whether it would be profitable for the hospital to purchase the machine? Give your recommendation under:

(i) Net Present Value method

(ii) Profitability Index method.

PV factors at 10% are given below:

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467

(5 Marks)

(b) The following information is supplied to you:

	(Rs.)
Total Earnings	4,00,000
No. of equity shares (of Rs. 100 each)	40,000
Dividend paid	3,00,000
Price/ Earnings ratio	12.5

Applying Walter's Model:

(i) ANALYSE whether the company is following an optimal dividend policy. Also calculate market price in this case.

(ii) COMPUTE P/E ratio at which the dividend policy will have no effect on the value of the share.

(iii) Will your decision change if the P/E ratio is 8 instead of 12.5? Also calculate market price in this case.

(5 Marks)

Question 4:

(a) DESCRIBE Bridge Finance.

(3 Marks)

(b) STATE Virtual Banking? DISCUSS its advantages.

(4 Marks)

(c) EXPLAIN Concentration Banking

(3 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:

Over 3 billion people worldwide drink coffee every day, and about 18% of Indians prefer coffee over tea. These numbers are growing at a CAGR of 11% and HotKopi wants to lead the way ahead in budget coffee stores in the Indian subcontinent. With many new brands mushrooming out to make money from the growing industry, HotKopi's unique selling proposition (USP) is its hand blended coffee, roasted on cow dung.

The business is not easy, getting quality cow dung, training individuals, packing organically and maintaining hygiene has been a constant issue. However, their customer reach and relationship management has been a winner in the market. This has helped them grow slow and steady even with enormous competition in the coffee segment.

In their annual finance meeting, the CFO of the company targeted to achieve 30% growth in customers and 7% increase in net profits as soon as possible. On these lines, the company planned to expand its operations and team size to nearly thrice of what they were in the beginning of the year.

The business of HotKopi seemed sustainable but as the environment is dynamic and competition is fierce, the management had been keeping an eye on competition very closely. The promotions from competitors were flocking between being organic to dropping prices, offering free corporate parties, student discounts and souvenirs for high purchasers. The team knew these were costly promotions and were denting their competition economically but getting them business and a big share of the market.

More so, ChocoJoe, the biggest coffee brand in North America, was due to enter India in the coming months. They had already partnered with one of HotKopi's competitors and the business sustainability of HotKopi seemed weak. The team sat down for a round table meeting and decided to offer their entire business to ChocoJoe for a 120% premium and exit the business.

ChocoJoe recently accepted their offering and the deal shall finalise by year end.

HotKopi has been a short success story which shall now hide behind the mega branding of ChocoJoe. Nonetheless, businesses are meant to be practical at times rather than being emotional. Whether the decision to sell off and exit was a wise one or not, only time would tell.

1. Which of the following aspects of Value Chain Analysis has been a crisis area for HotKopi?
   (a) Inbound logistics and Transformational operations
   (b) Outbound logistics and Transformational operations
   (c) Marketing and Sales
   (d) Service and Inbound logistics **(2 Marks)**

2. Differentiation has been core to HotKopi's business, but it has its own weaknesses. Which of the following could be the weakest of them all for HotKopi?
   (a) Price point war
   (b) Sustainability of uniqueness
   (c) Inevitability of offering proposition
   (d) Switching costs for customers **(2 Marks)**

3. Which core characteristic in CFO's objective of achieving 30% growth in customers and 7% increase in net profits is missing?
   (a) Being concrete and specific
   (b) Providing standard for performance appraisal
   (c) Challenging in nature
   (d) Time frame specific

(2 Marks)

4. Had they not offered their business to ChocoJoe, HotKopi would have to pursue their plans of expansion. Which of the following would best suit their organizational structure?
   (a) Divisional structure
   (b) Multidivisional structure
   (c) Functional structure
   (d) Strategic business unit structure

(2 Marks)

5. HotKopi opted for liquidation. What kind of strategic control helped them get money out of the business at the right time?
   (a) Strategic surveillance
   (b) Special alert control
   (c) Premise control
   (d) Management control

(2 Marks)

6. Dr. Raman has been running a nursing home for about twenty two years now, and has gained enormous name for his benevolence in Balram district of Chhattisgarh. Recently, his daughter, Dr. Radhika completed her medicine degree from the United States of America and returned to her hometown to be a part of her father's practice. She has been given the baton to promote modern medicine and retain the local skilled youth in their practice. However, their nursing home's skilled youth has been more inclined to E-Commerce employment opportunities. Dr. Radhika has taken it as a challenge to imbibe the very essence of service in them, by being employed as nurses and caretakers of the ill. This shall be very crucial in growing the practice as desired. Which of the following phases of Kurt Lewin's Model of Change will be most challenging for Dr. Radhika to strategically positioning her father's nursing home?
   (a) Compliance
   (b) Identification
   (c) Internalization
   (d) Transition

(2 Marks)

7. The employees of XYZ ltd have been facing problems regarding the difference between the understanding of strategy formulation and strategy implementation. In order to address this problem, you, the president operations, made four groups and asked each group to write in points their understanding of the same. The following points were compiled from their knowing of strategy formulation and implementation.
   (1) Strategy formulation focuses on efficiency while strategy implementation focuses on effectiveness.
   (2) Strategy formulation requires motivation and leadership skills while strategic implementation require conceptual intuitive and analytical skills.

(3) Strategy formulation is an intellectual process while strategy implementation is primarily an operational process.
(4) Strategy formulation requires coordination between executives at middle and lower level while strategy implementation requires coordination among the executives at the top levels.

Out of the following views, what all needs to be corrected?
(a) 1, 3 & 4
(b) 1 & 2 & 3
(c) 1, 2 & 4
(d) 1, 2, 3 & 4

(2 Marks)

8. Conglomerate diversification is another name for which of the following?
(a) Related diversification
(b) Unrelated diversification
(c) Portfolio diversification
(d) Acquisition diversification

(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) 'ALBELA' Foods and 'JustBE' Foods are successfully competing chain of restaurants in India. ALBELA' s are known for their innovative approach, which has resulted in good revenues. On the other hand, JustBE is slow in responding to environmental change. The initial stages of Covid-19 pandemic and the ensuring strict lockdown had an adverse impact on both the companies. Realizing its severity and future consequences. ALBELA, foods immediately chalked out its post lockdown strategies, which include initiatives like:
(a) Contactless dinning
(b) New category of foods in the menu for boosting immunity
(c) Improving safety measures and hygiene standards
(d) Introducing online food delivery app

Seeing the positive buzz around these measures taken by ALBELA Food, JustBE Foods also thinks to introduce these measures.
(i) Identify the strategic approach taken by 'ALBELA' Foods and 'JustBE' Foods.
(ii) Discuss these strategic approach.
(iii) Which strategic approach is better and why?

(1 + 3 + 1 = 5 Marks)

(b) Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors.

Discuss the organization structure Manoj should implement in his organization and name it.

(5 Marks)

(c) Woodworld Ltd. is a company manufactures a variety of household furniture items. They offered traditional designs, low cost furniture items to low income group customers. During the last couple of years, the company has been observing a fall in the market share. This is due to the change in the taste and preferences, designing, better quality, increase in purchasing power of buyers towards the household furniture. The customers are switching away traditional designs and material that have been the backbone of Woodworld Ltd.
As a CEO of Woodworld Ltd., what can be the strategic options available with you.

(5 Marks)

Question 2:

(a) Strategic Management is a time consuming and costly process, yet all organization's want to do indulge into it? Why?

(5 Marks)

(b) Shyam Samosa Corner 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 Shyam Samosa Corner are paper disposal. Even though they are costlier than recyclable plastic disposal, irrespective, they are being welcomed positively by the consumers.
Identify and explain that competition from paper disposal fall under which category of Porter's Five Forces Model for Competitive Analysis?

(5 Marks)

Question 3:

(a) A manufacturing company is in direct competition with fifteen companies at national level. Head of marketing department of this company wishes to study the market position of rival companies by grouping them into like positions. Name the tool that may be used by him/her. Explain the procedure that may be used to implement the techniques.

(1 + 4 = 5 Marks)

(b) What is cost leadership strategy? Under what circumstances an organization can gain competitive advantages from cost leadership strategy? Is there any risk in pursuing cost leadership strategy?

(1+ 3 + 1 = 5 Marks)

Question 4:

(a) Bargaining power of supplier determine an industry's attractiveness and profitability. Discuss.

(5 Marks)

(b) Kamlesh, is owner of a popular brand of Breads. Pawan, 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 Kamlesh preferred to use authority and having a formal system of defining goals and motivation with explicit rewards and punishments, Pawan 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.

(5 Marks)

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