

## 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

Shyam Ltd. is considering the purchase of a machine which will perform some operations which are at present performed by workers. Machines X and Y are alternative models. The following details are available:

	Machine X (Rs.)	Machine Y (Rs.)
Cost of machine	1,50,000	2,40,000
Estimated life of machine	5 years	6 years
Estimated cost of maintenance p.a.	7,000	11,000
Estimated cost of indirect material, p.a.	6,000	8,000
Estimated savings in scrap loss p.a.	10,000	15,000
Estimated cost of supervision p.a.	12,000	16,000
Estimated savings in wages p.a.	90,000	1,20,000

Depreciation will be charged on straight line basis. The tax rate is 30%. Assuming cost of capital being 10%. (The present value of Rs. 1.00 @ 10% p.a. for 5 years is 3.79 and for 6 years is 4.354)

1. Calculate annual cash inflow of machine X
  - (a) 61,500
  - (b) 31,500
  - (c) 75,000
  - (d) 45,000
  
2. Calculate annual cash inflow of machine Y
  - (a) 1,35,000
  - (b) 1,00,000
  - (c) 42,000
  - (d) 82,000

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3. Calculate Net Present Value of Machine X
  - (a) 75,000
  - (b) 1,00,000
  - (c) 83,085
  - (d) 64,080
  
4. Calculate Net Present Value of Machine X
  - (a) 1,57,026
  - (b) 1,17,028
  - (c) 2,41,106
  - (d) 1,81,105
  
5. Calculate Desirability Factor of Machine X and Y
  - (a) 1.5539, 1.4876
  - (b) 1.3430, 1.4142
  - (c) 2.5652, 3.4143
  - (d) 1.8180, 1.9640

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

### **Q. 6 to 8:**

#### **Case Scenario**

Following data have been extracted from the books of Ram Ltd:

Sales - Rs. 100 lakhs

Interest Payable per annum - Rs. 10 lakhs

Operating leverage - 1.2

Combined leverage - 2.16

6. Calculate Financial Leverage
  - (a) 2.8
  - (b) 2.4
  - (c) 1.8
  - (d) 1.5
  
7. Calculate Fixed Operating Cost
  - (a) 5,50,000
  - (b) 4,50,000
  - (c) 4,00,000
  - (d) 5,00,000
  
8. Calculate P/V Ratio
  - (a) 25%
  - (b) 23%
  - (c) 37%
  - (d) 27%

**(2 Marks)**

**(2 Marks)**

**(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) Using the following data, complete the Balance Sheet of X Ltd. given below:

Gross Profit	Rs. 54,000
Shareholders' Funds	50 Times of Debtors
Gross Profit margin	20%
Credit sales to Total sales	80%
Total Assets turnover	0.3 times
Inventory turnover	4 times
Average collection period (a 360 days year)	20 days
Current ratio	1.8
Long-term Debt to Equity	40%

#### Balance Sheet

Creditors		Cash	
Long-term debt		Debtors	
Shareholders' funds		Inventory	
		Fixed assets	
Total		Total	

**(5 Marks)**

- (b) Harishchandra Ltd. has an operating profit of Rs. 34,50,000 and has employed Debt which gives total Interest Charge of Rs. 7,50,000. The firm has an existing Cost of Equity and Cost of Debt as 16% and 8% respectively. The firm has a new proposal before it, which requires funds of Rs. 75 Lakhs and is expected to bring an additional profit of Rs. 14,25,000. To finance the proposal, the firm is expecting to issue an additional debt at 8% and will not be issuing any new equity shares in the market. Assume no tax culture.

You are required to CALCULATE the Weighted Average Cost of Capital (WACC) of Harishchandra Ltd.:

- (i) Before the new Proposal
- (ii) After the new Proposal

**(5 Marks)**

- (c) The following figures have been collected from the annual report of Raju Ltd. for the current financial year:

Net Profit	Rs. 75 lakhs
Outstanding 12% preference shares	Rs. 250 lakhs
No. of equity shares	7.50 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

- (a) COMPUTE the approximate dividend pay-out ratio so as to keep the share price at Rs. 42 by using Walter's model?
- (b) DETERMINE the optimum dividend pay-out ratio and the price of the share at such pay-out.
- (c) DETERMINE the price of the share at 25%, 50%, 75%, 100% pay-out.

**(5 Marks)**

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### Question 2:

The following is the capital structure of a Company:

Source of capital	Book value (Rs.)	Market value (Rs.)
Equity shares @ Rs. 1000 each	80,00,000	1,60,00,000
9% Cumulative preference shares @ Rs. 1000 each	20,00,000	24,00,000
11% Debentures @ Rs. 1000 each	60,00,000	66,00,000
Retained earnings	40,00,000	-
	2,00,00,000	2,50,00,000

The current market price of the company's equity share is Rs. 2000. For the last year the company had paid equity dividend of Rs. 250 and its dividend is likely to grow 5 per cent every year. The corporate tax rate is 30 per cent and shareholders personal income tax rate is 20 per cent.

You are required to calculate:

- (i) Cost of capital for each source of capital.
- (ii) Weighted average cost of capital on the basis of book value weights.
- (iii) Weighted average cost of capital on the basis of market value weights.

**(10 Marks)**

### Question 3:

A garment trader is preparing cash forecast for first three months of calendar year 2021. His estimated sales for the forecasted periods are as below:

	January (Rs. '000)	February (Rs. '000)	March (Rs. '000)
Total sales	600	600	800

- (i) The trader sells directly to public against cash payments and to other entities on credit. Credit sales are expected to be four times the value of direct sales to public. He expects 15% customers to pay in the month in which credit sales are made, 25% to pay in the next month and 58% to pay in the next to next month. The outstanding balance is expected to be written off.
- (ii) Purchases of goods are made in the month prior to sales and it amounts to 90% of sales and are made on credit. Payments of these occur in the month after the purchase. No inventories of goods are held.
- (iii) Cash balance as on 1st January, 2021 is Rs. 50,000.
- (iv) Actual sales for the last two months of calendar year 2020 are as below:

	November (Rs. '000)	December (Rs. '000)
Total sales	640	880

You are required to prepare a monthly cash, budget for the three months from January to March, 2021.

**(10 Marks)**

### Question 4:

(a) Explain in brief following Financial Instruments:

- (i) Euro Bonds
- (ii) Floating Rate Notes
- (iii) Euro Commercial paper
- (iv) Fully Hedged Bond

**(4 Marks)**

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(b) Discuss the Advantages of Leasing. (3 Marks)

(c) Write main objectives of Financial Management. (3 Marks)

**OR**

Write two main reasons for considering risk in Capital Budgeting decisions. (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**

Hareeyali Pvt. Ltd. is a company working towards making corporates spaces greener with their innovative infrastructural designs and products. The company is newly found and has six founders. It works with a team of just four people in middle management and around fifty plus on ground, working at various roles like client relationship management and delivery management.

The industry is fairly new but already dominated by GreenZone Pvt. Ltd., which produces around 800 designs for its fifty clients. GreenZone has a facility that produces the designed structures at a massive scale of 3000 pieces per day. It has been the sole player for a few years but as the corporates plan to go green, the industry is expecting a rise.

Hareeyali has begun decent operations but is struggling for a production facility. A proper strategy to build around the gaps and new areas of the industry shall take its business to another level. The founders' have mission of reaching every single corporate in India.

They plan to spread in three phases. The first phase is to tap Delhi NCR and Mumbai.

Strategy team understands one important thing about these cities that, the working class needs something they can personalize. Hence, the company decided to go for company focused designing that shall give them an advantage over the standardized products from its rivals.

Hareeyali has also introduced Green Card Points System, wherein the employees who chose to use their products earn points and can further spend them to buy herbal and organic products from leading online platforms.

The company has been doing good business since last year and plans to expand via online as and offline modes.

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

1. GreenZone has been the leader in the industry and has deployed some barriers to entry on new players wanting to tap into this new growing industry. Apparently, Hareeyali has been struggling on the very same front and thus, the barrier's magnitude increases. Which of the following is barrier to entry used by GreenZone?
  - (a) Product differentiation
  - (b) Switching costs
  - (c) Economies of scale
  - (d) Brand identity

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2. Hareeyali's Green points system falls under which strategic marketing technique?
  - (a) Service marketing
  - (b) Person marketing
  - (c) Direct marketing
  - (d) Augmented marketing
  
3. If Hareeyali has to compete with GreenZone, it ought to have strategy in place. And not just strategy but a relevant strategy audit from time to time is necessary to accomplish results. As per Richard Rumelt, there are a few criterions to be considered in strategy audit. Which of the following is not one of the criterions as per Richard Rumelt?
  - (a) Consistency
  - (b) Position
  - (c) Consonance
  - (d) Feasibility
  
4. The management structure of Hareeyali is apparently like any other company with a lot of founders/top management, as the middle office work is undertaken by business automation. It does reduce costs but the lower management has less opportunities to grow. Based on that, which if the following is the organizational structure of Hareeyali?
  - (a) Network structure
  - (b) Matrix structure
  - (c) Divisional structure
  - (d) Hourglass structure
  
5. Intensity of rivalry determines attractiveness and profitability of an Industry. The rivalry between the two companies is furious and the profitability shall be low because of all the below factors, except:
  - (a) Variable costs of business
  - (b) GreenZone is currently the industry leader
  - (c) The industry's growth is slow
  - (d) Companies are planning product differentiation

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

6. During which stage of the Product Life Cycle will marketing strategies need to concentrate on differentiating a product from competing products, building brand loyalty and offering incentives to attract competitor's customers to switch?
  - (a) Decline
  - (b) Growth
  - (c) Maturity
  - (d) Introduction

**(2 Marks)**

7. Dee Limited is an international clothing retailer. The company is making the following decisions:
  - i. Should another range of shops be established?
  - ii. Should the company float more share capital?
  - iii. How will the premises be fitted out for the new range of shops?
 Which of the above decisions will be taken by corporate level managers?
  - (a) Only (i)
  - (b) Only (ii)
  - (c) (i) & (ii)
  - (d) (ii) & (iii)

**(2 Marks)**

8. When there is impact of strategy implementation on strategy formulation it can be referred as?
- (a) Backward Linkages
  - (b) Forward Linkages
  - (c) Vertical Linkages
  - (d) Horizontal Linkages

**(1 Mark)**

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**PART II – DESCRIPTIVE QUESTIONS (35 Marks)**

**Question No. 1 is Compulsory.**

**Attempt any two questions out of the remaining three questions.**

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**Question 1:**

- (a) Domolo is a premium cycles and cycling equipments brand which targets high spending customer with a liking for quality and brand name. Their cycles range from rupees fifteen thousand to rupees one lac. The recent trend of fitness through cycling has created humongous demand for cycles and peripherals like helmets, lights, braking systems, fitness applications, etc. The customer base has grown 150% in the last three months. Mr. Vijay, who is an investor wants to tap in this industry and bring about cheaper options to people who cannot spend so much. Which business level strategy would best suit for Mr. Vijay's idea and what are the major sub-strategies that can be implemented to capture maximum market?

**(5 Marks)**

- (b) StarTech Solutions, an aerospace technology firm, operates in a highly competitive industry. Despite the fierce competition in the aerospace sector, StarTech has carved out a niche for itself by focusing on serving unique, high-end clients. Unlike its competitors, StarTech has chosen not to diversify its target market and instead specializes in providing cutting-edge solutions to this niche market. Identify and explain the strategy adopted by StarTech Solutions. Discuss the advantages and disadvantages of this strategy.

**(5 Marks)**

- (c) "Samar Electronics Limited" is engaged in manufacturing and sale of consumer electronic goods globally. The company is rated 'best' in 'customer satisfaction survey' for 5 years in a row. The spread of the current pandemic has affected the internal and external environment of the company adversely. Such adverse impact has negatively impacted the revenue of the company. In order to survive and retain the business, the company decided to outsource a major part of its organisational activities, like manufacturing, distribution channels, after sales service etc. Now the organisation's business functions are scattered worldwide with a small headquarter connected to independent business units digitally.

What type of organisational structure is the company transitioning into? List the basic features of this new structure and the disadvantages that the company may face in future in this new structural arrangement.

**(5 Marks)**

**Question 2:**

- (a) Swagatam was a chain of hotels. The business was good until the whole nation was impacted by COVID-19 pandemic in early 2022. The management soon understood that pandemic had seriously disrupted the hotel sector and average revenue-per-available room fell by nearly 90% and they expected this decline to continue due to travel bans and fear seen in the society.

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Pandemic required 14-day compulsory quarantine for the affected individuals and hospitals were short of rooms.

Management found a small opportunity as they had sufficient rooms, staff and could follow required health and safety standards. They decided to do service transformation by letting some of their units to hospitals to be transformed into covid-care units & rest of the units were rented to individuals as a quarantine facility.

- (a) Name the strategic level of management at which such decisions are made.
- (b) The above scenario depicts one of the limitations of strategic management. Discuss which limitation of strategic management is depicted here.
- (c) Here the decision taken by the management was reactive. Discuss the benefit of proactive approach over reactive approach.

**(5 Marks)**

- (b) You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behavior, develop a marketing strategy to promote the new smartphone.

**(5 Marks)**

### Question 3:

- (a) There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.

**(5 Marks)**

- (b) Explain the role of ADL Matrix in assessing competitive position of a firm.

**(5 Marks)**

### Question 4:

- (a) What is strategic control? Briefly explain the different types of strategic control?

**(5 Marks)**

- (b) Explain the concept of Experience Curve and highlight its relevance in strategic management.

**(5 Marks)**

**OR**

- (b) "Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management." Considering this statement, explain major benefits of strategic management.

**(5 Marks)**

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