Intermediate Course: Group – II		(Mock Test Paper – Series : 1)
DATE: 20.09.2024	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 Scanario 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 Ashok Ltd. :- (31.3.23)

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital	2,00,000	Land and Buildings		1,60,000
Profit and Loss Account	34,000	Plant and Machineries		70,000
Current Liabilities	80,000	Stock	42,000	
		Receivables	40,000	
		Bank	2,000	84,000
Total	3,14,000	Total		3,14,000

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%
10% 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. 10,000 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 total assets
   (a) Rs. 2,00,000
   (b) Rs. 2,50,000
   (c) Rs. 3,00,000
   (d) Rs. 4,00,000

2. Calculate current ratio
   (a) 8 : 5
   (b) 5 : 8
   (c) 4 : 5
   (d) 2 : 1

3. Calculate value of stock
   (a) Rs. 30,000
   (b) Rs. 60,000
   (c) Rs. 1,60,000
   (d) Rs. 1,00,000

4. Calculate stock turnover ratio
   (a) 4
   (b) 2
   (c) 8
   (d) 1

5. Calculate net profit
   (a) Rs. 13,000
   (b) Rs. 26,000
   (c) Rs. 39,000
   (d) Rs. 52,000

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

Q. 6 to Q. 7:
CASE SCENARIO
Face value of equity shares of a company is Rs. 10, while current market price is Rs. 200 per share. Company is going to start a new project, and is planning to finance it partially by new issue and partially by retained earnings. If issue price will be Rs. 190 per share and floatation cost will be Rs. 5 per share. Dividend at the end of first year is expected to be Rs. 10 and growth rate will be 5%.

6. Calculate K_e
   (a) 10%
   (b) 5%
   (c) 10.41%
   (d) 12.48%

7. Calculate K_r
   (a) 10%
   (b) 5%
   (c) 10.41%
   (d) 12.48%

MCQ [2 MCQ of 2 Marks Each : Total 4 Marks]

8. XYZ Company is considering raising funds for its expansion project. They are evaluating different sources of finance, including issuing equity shares. The management team is interested in understanding the advantages of raising funds through the issuance of equity shares. Based on the scenario, which advantage of raising funds through the issuance of equity shares is highlighted?
   (a) Equity shares offer fixed returns to shareholders.
   (b) Equity shares have a maturity date for redemption.
   (c) Equity shares provide a temporary source of finance.
   (d) Equity shares are a permanent source of finance, and the company is not liable for redemption.

(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) Aman Ltd. and Baman Ltd. are identical in every respect except capital structure. Aman Ltd. does not employ debts in its capital structure whereas Baman Ltd. employs 12% Debentures amounting to Rs. 100 lakhs. Assuming that :
(i) All assumptions of M-M model are met;
(ii) Income-tax rate is 30%;
(iii) EBIT is Rs. 25,00,000 and
(iv) The Equity capitalization rate of 'Aman' Ltd. is 20%.

CALCULATE the value of both the companies and also find out the Weighted Average Cost of Capital for both the companies.

(5 Marks)

(b) The following details of GST Limited for the year ended 31st March, 2024 are given below:

Operating leverage	1.4
Combined leverage	2.8
Fixed Cost (Excluding interest)	Rs. 2.04 lakhs
Sales	Rs. 30.00 lakhs
12% Debentures of Rs. 100 each	Rs. 21.25 lakhs
Equity Share Capital of Rs. 10 each	Rs. 12.00 lakhs
Income tax rate	30 per cent

Required:
(i) Calculate financial leverage
(ii) Calculate P/V ratio and Earning per Share (EPS)
(iii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets turnover?
(iv) At what level of sales the Earning before Tax (EBT) of the company will be equal to zero?

(5 Marks)

(c) A Ltd. is a company listed in BSE in India with a face value of Rs. 1,000 per share. The company is expected to grow @ 15% p.a. for next four years then 5% for an indefinite period. The shareholders expect 20% return on their share investments.

Company paid Rs. 120 as dividend per share for the current financial year. The shares of the company traded at an average price of Rs. 3,122 on last day. FIND out the intrinsic value of per share and state whether shares are overpriced or underpriced.

(5 Marks)

Question 2:

XYZ Ltd. is planning to introduce a new product with a project life of 8 years. Initial equipment cost will be Rs. 3.7 crores. Additional equipment costing Rs. 25,00,000 will be purchased at the end of the third year from the cash inflow of this year. At the end of 8 years, the original equipment will have resale value of Rs. 20,00,000, but additional equipment can be sold for Rs. 2,50,000. A working capital of Rs. 40,00,000 will be needed and it will be released at the end of eighth year. The project will be financed with sufficient amount of equity capital.

The sales volumes over eight years have been estimated as follows:

Year	1	2	3	4 – 5	6 – 8
Units per year	72,000	1,08,000	2,60,000	2,70,000	1,80,000

A sales price of Rs. 240 per unit is expected and variable expenses will amount to 60% of sales revenue. Fixed cash operating costs will amount Rs. 36,00,000 per year. The loss of any year will be set off from the profits of subsequent two years. The company is subject to 30 per cent tax rate and considers 12 per cent to be an appropriate after-tax cost of capital for this project. The company follows straight line method of depreciation.

CALCULATE the net present value of the project and advise the management to take appropriate decision.

The PV factors at 12% are

Year	1	2	3	4	5	6	7	8
PV Factor	0.893	0.797	0.712	0.636	0.567	0.507	0.452	0.404

(10 Marks)

Question 3:

A proforma cost sheet of X Ltd. provides the following data:

	Rs.
Raw material cost per unit	117
Direct Labour cost per unit	49
Factory overheads cost per unit	102
(includes depreciation of Rs. 22 per unit at budgeted level of activity)	
Total cost per unit	268
Profit	36
Selling price per unit	304

Following additional information is available:

Average raw material in stock	:	4 weeks
Average work-in-process stock	:	2 weeks
(% completion with respect to Materials)	:	80%
Labour and Overheads	:	60%)
Finished goods in stock	:	3 weeks
Credit period allowed to debtors	:	6 weeks
Credit period availed from suppliers	:	8 weeks
Time lag in payment of wages	:	1 week
Time lag in payment of overheads	:	2 weeks

The company sells one-fifth of the output against cash and maintains cash balance of Rs. 2,50,000.

Required:
Prepare a statement showing estimate of working capital needed to finance a budgeted activity level of 78,000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

(10 Marks)

Question 4:

(a) EXPLAIN the followings:
(i) Floating Rate Bonds
(ii) Packing Credit.

(2 x 3 M = 6 Marks)

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

(4 Marks)

OR

(b) "Financing a business through borrowing is cheaper than using equity." Briefly EXPLAIN.

(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
KingLike WLL, is a construction company based in Dubai, which specializes in residential complexes. It has developed a new concept for the market, Private Vila cum Apartments called "Vilartment". These spaces are designed to suit the increasing demand of married couples wanting to stay with their parents, thus offering more space in a single residential unit.
The company has huge land purchasing power which gives them a competitive advantage over its rivals. Also, the designs are developed by the best in class Italian designers and the same have been patented. Thus, it is very tough to replicate KingLike's properties.
This project is positioned as a separate business unit to capture maximum potential of the management. Personnel at different levels have been employed to look after the respective functions of the unit. It is estimated that around 15,000 Vilartments will be constructed within next three years, and, 50% of the total units shall be ready to move into with immediate effect once the construction is completed.
The marketing team has roped in major Bollywood and Hollywood celebrities to perform at the foundation stone ceremony of the Vilartment, scheduled next month. The ceremony will be covered by major global media houses and channels via print and social media, thus, attracting potential buyers from all over the world.
With everything planned and efficient teams ready to execute, the management is confident of the project's success. The Vilartment
shall position KingLike WLL as a leading real estate company in the global market.
Based on the above case scenario, answer the multiple choice questions.

1. Igor Ansoff gave a framework which describes the intensification options available to a firm. Which of them did KingLike use for its intensification strategy?
   (a) Market penetration
   (b) Product development
   (c) Market development
   (d) Diversification into new products

2. Core competency is built on multiple know-hows and is an integration of many resources. As per C.K. Prahalad and Gary Hamel. KingLike has expert teams and huge buying capacity. Which amongst the following is not an areas where core competency is identified?
   (a) Customer value
   (b) Application of competencies
   (c) Market development
   (d) Competitor differentiation

3. Different personnel have been deployed at respective levels in the project working as a business unit. Answer, Divisional managers and staff are a part of which of the following strategic levels in the organization?
   (a) Corporate level
   (b) Functional level
   (c) Business level
   (d) Consultant level

4. _________is the answer to basic question "what business we are and what we do". Many businesses fail to conceptualize this and it requires clarity. The company however has clarity on the same. Fill in the blank with the correct option.
   (a) Vision
   (b) Mission
   (c) Strategy
   (d) Planning

5. Vilartment shall function as a strategic business unit (SBU), being one of the key businesses of the company. Which of the following is not a characteristic of a strategic business unit?
   (a) It is a combination of two or more independent businesses.
   (b) The planning for the business is done separately.
   (c) It has its own set of competitors.
   (d) It has its own manager responsible for strategy and profits.

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

6. A famous restaurant enjoys full occupancy during the lunch and dinner time for last few months. In fact, many customers go back as they have to wait for their turn. Between 15:00 hours to 18:00 hours, the occupancy rate is near to nil. To raise the footfalls of customers during this lean time, the owner offers a discount of 20% on total bill if a customer comes in these 3 hours. Which type of marketing strategy does the restaurant follow to attract the customers in the lean period?
   (a) Differential Marketing
   (b) Synchro-marketing
   (c) Place Marketing
   (d) Concentrated Marketing

(2 Marks)

7. Meba Ltd. had a huge capacity of 40,000 Kilo Litres production of Kerosene Oil, and they were able to achieve 90% of it almost always, while the teams were also aware that they can achieve 100% capacity with very less efforts, but always kept margins. Further, the business team was planning to setup two more plants of 20,000 Kilo Litre capacity each in the next five years. This was a welcomed move from state governments as well. From the above, which of the following aspects of the objective has not been given much importance?
   (a) They should be clear and quantifiable
   (b) They should be concise
   (c) They should be challenging
   (d) They should provide standard for comparative appraisal **(2 Marks)**

8. Shreya, the owner of Kalakaari boutiques, wanted to reduce uncertainty of their business strategy for which she gathered a lot of information from peers, groups, industry reports and experts. But it did not give her comfort to take up new strategies. What tool can help her in this regard?
   (a) Risk Analysis
   (b) BCG Analysis
   (c) ADL Matrix
   (d) Scenario Analysis **(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) 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)

(b) Spacetek Pvt. Ltd. is an IT company. Although there is cut throat competition in the IT sector, Spacetek deals with distinctive niche clients and is generating high efficiencies for serving such niche market. Other rival firms are not attempting to specialize in the same target market. Identify the strategy adopted by Spacetek Pvt. Ltd. and also explain the advantages and disadvantages of that strategy.
(5 Marks)

(c) Health Pharma Pvt. Ltd. (HPPL) a one person company with limited liability is manufacturing generic and medicinal drugs in India.
Hygiene Laboratories Plc. (HLP) a multinational company with its strong financial position is one of the major players in pharmaceutical sector.
Individually, each company has its own core competencies. However, additional focus by the state on generic medicine with renewed regulatory requirements are posing challenges in fierce competitive environment.
Considering benefits of synergies, both the companies are considering to join hands for better growth opportunities. Earlier, they tried to go for joint venture or strategic alliance but the arrangement could not materialize.

In view of the facts given above:

(i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd., what type of growth strategy will this strategic development be?

(ii) In case, HLP is sold out to HPPL and HLP ceased to exist, what type of growth strategy will this strategic deal be?

(iii) What are the differences between the above two identified growth strategies?

(5 Marks)

Question 2:

(a) 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)

(b) 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)

Question 3:

(a) 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)

(b) Which strategy is implemented by redefining the business, by enlarging its scope of business and substantially increasing investment in the business? Explain the major reasons for adopting this strategy.

(5 Marks)

Question 4:

(a) Define Strategic Performance Measures (SPM). Explain various types of strategic performance measures.

(5 Marks)

(b) STU's association with India goes back to 1967, when it played a key role in constructing a very long highway in India spreading over multiple states. Since then, it is contributing in many ways to the country's growth story. Now it is looking at playing an active role in the key projects taken up by the central government. Suggest few Opportunities and Threats that the company should consider.

(5 Marks)

OR

(b) Define strategic intent. Briefly explain the elements of strategic intent.

(5 Marks)

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