Mock Test Paper - Series I: March, 2024

Date of Paper: 16 March, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE: GROUP – II

PAPER – 6A : FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A: FINANCIAL MANAGEMENT

Time Allowed – 3 Hours (Total time for 6A and 6B) Maximum Marks – 50

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 Division A, 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.

1. NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at ₹ 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

   With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about ₹ 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are : (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

   Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

   You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

I. What is average level of receivables of the company?

a. ₹ 53,33,333

b. ₹ 35,55,556

c. ₹ 44,44,444

d. ₹ 71,11,111

II. How much advance factor will pay against receivables?

a. ₹ 31,28,889

b. ₹ 39,11,111

c. ₹ 30,03,733

d. ₹ 46,93,333

III. What is the annual cost of factoring to the company?

a. ₹ 8,83,200

b. ₹ 4,26,667

c. ₹ 5,51,823

d. ₹ 4,00,000

IV. What is the net cost to the company on taking factoring service?

a. ₹ 4,00,000

b. ₹ 4,26,667

c. ₹ 3,50,000

d. ₹ 4,83,200

V. What is the effective cost of factoring on advance received?

a. 16.09%

b. 13.31%

c. 12.78%

d. 15.89% **(5 x 2 = 10 Marks)**

2. Ramu Ltd. wants to implement a project for which ₹ 25 lakhs is required. Following financing options are at hand:

Option 1:

Equity Shares	25,000 @ ₹ 100

Option 2:

Equity Shares	10,000 @ ₹ 100
12% Preference Shares	5,000@ ₹ 100
10% Debentures	10,000@ ₹ 100

What is the indifference point & EPS at that level of EBIT assuming corporate tax to be 35%.

(a) ₹ 2,94,872; ₹ 11.80

(b) ₹ 3,20,513; ₹ 8.33

(c) ₹ 2,94,872; ₹ 7.67

(d) ₹ 3,20513; ₹ 12.82 **(2 Marks)**

3. "If EBIT increases by 6%, net profit increases by 6.9%. If sales increase by 6%, net profit will increase by 24%.

Financial leverage must be -............"

(a) 1.19

(b) 1.13

(c) 1.12

(d) 1.15 **(2 Marks)**

4. What is the maximum period for which company can accept Public Deposits?

(a) 1 year

(b) 6 months

(c) 3 years

(d) 5 years **(1 Marks)**

PART II – Descriptive Questions (35 Marks)

Question No. ***1*** *is compulsory.*

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

1. (a) The following figures have been extracted from the annual report of Xee Ltd.:

Net Profit	₹ 54 lakhs
Outstanding 12% preference shares	₹ 200 lakhs
No. of equity shares	2 lakhs
Return on Investment	22%
Cost of capital i.e. (K_e)	15%

COMPUTE the approximate dividend pay-out ratio so as to keep the share price at ₹ 120 by using Walter's model?

(Decimal may be taken up to 2 units) **(5 Marks)**

(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 (K_o) is 20%.

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

(5 Marks)

(c) ANVY Ltd. has furnished the following ratios and information for the year end 31st March, 2023:

Equity share capital	₹ 2,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.50
Total debt to Equity share capital	0.60
Fixed assets to Equity share capital	0.70
Total assets turnover	2.5 Times
Inventory turnover	10 Times

You are required to PREPARE the Balance Sheet of ANVY Ltd. as on 31st March, 2023. **(5 Marks)**

2. (a) NC Ltd. Is considering purchasing a new machine to increase its production facility. At present, it uses an old machine which can process 5,000 units of TVs per week. NC could replace it with new machine, which is product specific and can produce 15,000 units per week. New machine cost ₹ 100 crores and requires the working capital of ₹ 3 crores, which will be released at the end of 5th year. The new machine is expected to have a salvage value of ₹ 20 crores.

The company expects demand for TVs to be 10,000 units per week. Each TV sells for ₹ 30,000 and has Profit Volume Ratio (PV) of 0.10. The company works for the 56 weeks in the year. Additional fixed costs (excluding depreciation) are estimated to increase by ₹ 10 crores. The company is subject to a 40% tax rate and its after-tax cost of capital is 20%. The relevant rate of depreciation is 25 % for both taxation and accounts. The company uses the WDV method of depreciation. The existing machine will have no scrap value.

You are required to:

ADVISE whether the company should replace the old machine.

(Decimal may be taken up to 2 units) **(8 Marks)**

(b) WRITE a short note on “Cut-off Rate”. **(2 Marks)**

3. (a) Ram Ltd evaluates all its capital projects using discounting rate of 16%. Its capital structure consists of equity share capital, retained earnings, bank term loan and debentures redeemable at par. Rate of interest on bank term loan is 1.4 times that of debenture. Remaining tenure of debenture and bank loan is 4 years and 6 years respectively. Book value of equity share capital, retained earnings and bank loan is ₹ 20,00,000, ₹ 30,00,000 and ₹ 20,00,000 respectively. Debentures which are having book value of ₹ 30,00,000 are currently trading at ₹ 98 per debenture. The ongoing PE multiple for the shares of the company stands at 4.

You are required to:

(i) CALCULATE the rate of interest on bank loan and

(ii) CALCULATE the rate of interest on debentures

Tax rate applicable is 30%. **(8 Marks)**

(b) DISCUSS the dividend-price approach to estimate cost of equity capital.

(2 Marks)

4. (a) EXPLAIN the limitations of profit maximization objective of Financial Management. **(4 Marks)**

(b) WHAT are the methods of venture capital financing? **(4 Marks)**

(c) WHAT is 'Optimum Capital Structure'? **(2 Marks)**

OR

EXPLAIN the concept of Financial Leverage as 'Trading on Equity'.

(2 Marks)

INTERMEDIATE COURSE: GROUP II

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)

Question 1.(A) (Compulsory)

1. (A) In the fiercely competitive automotive industry, Zing, a promising newcomer, set out on a strategic journey with ambitions of making a substantial impact. Recognizing the significance of a robust distribution network early on, Zing forged partnerships with established dealerships, offering them attractive margins. This strategic move significantly enhanced Zing's reach, with a presence in 80% of the nation's dealerships by 2022, expanding its coverage significantly.

To differentiate themselves from competitors, Zing adopted two key strategies. Firstly, they prioritized product design, investing heavily in aesthetics and incorporating innovative features and environmentally friendly technologies. This focus on design led to their vehicles receiving excellent reviews and achieving an impressive 15% year-on-year growth in sales.

Secondly, Zing implemented switching costs to discourage customers from switching to other brands. Their vehicles featured branded software, making it both expensive and cumbersome for customers to transition to alternative brands. This strategic move effectively protected Zing's market share.

Zing's overarching goal was to position itself as a premium automotive brand, blending luxury with sustainability. However, their execution fell down as they challenged with maintaining consistent quality and service levels, resulting in mixed customer reviews.

Despite their best efforts, Zing's differentiation strategy fell short due to issues with inconsistent quality and service. Negative word-of-mouth and declining customer satisfaction scores tarnished their brand image, leading to stagnating sales. This failure to deliver on their brand promise proved to be a significant setback.

As Zing's reputation suffered from execution failures, securing additional funds for international expansion became challenging. Consequently, they made the difficult decision to postpone their global ambitions for the next five years, focusing instead on stabilizing their finances and rebuilding their brand image.

In summary, Zing's strategic journey illustrates the importance of not only crafting a compelling differentiation strategy but also executing it flawlessly. In the competitive automotive landscape, maintaining consistent quality and service is paramount to sustaining brand loyalty and achieving long-term success.

Based on the above Case Scenario, answer the Multiple Choice Questions.

(i) What key strategic approach did Zing use to expand its market presence in the automotive industry?

(a) Product innovation and design

(b) Cost leadership strategy

(c) Entering new international markets

(d) Vertical integration **(2 Marks)**

(ii) How did Zing protect its market share from potential competitors?

(a) Price-cutting strategy

(b) Branded software and switching costs

(c) Aggressive marketing campaigns

(d) International expansion **(2 Marks)**

(iii) Why did Zing's differentiation strategy fall short in the market?

(a) Intense price competition

(b) Poor marketing strategy

(c) Inconsistent quality and service

(d) Lack of international expansion **(2 Marks)**

(iv) Forging partnerships with established dealerships to enhance its distribution network falls under which level of strategy?

(a) Corporate level strategy

(b) Business level strategy

(c) Functional level strategy

(d) Competitive level strategy **(2 Marks)**

(v) How did Zing initially expand its market presence across the nation?

(a) Aggressive marketing campaigns

(b) Developing low-cost vehicles

(c) Partnering with established dealerships

(d) Launching a luxury brand **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) TechMex Inc., a leading technology company, offers a diverse portfolio of products ranging from established cash cows to promising question marks. As part of its strategic planning process, the company aims to assess its product portfolio's performance and allocate resources effectively. In which quadrant of the BCG Matrix would TechMex's new innovative product, recently launched in a rapidly growing market, likely fall into?

(a) Cash Cow

(b) Dog

(c) Question Mark

(d) Star **(2 Marks)**

(ii) BlueSky Enterprises, a multinational corporation specializing in renewable energy solutions, is undergoing a strategic transformation to enhance its competitive position in the market. As part of this initiative, the company is reevaluating its organizational structure, processes, and culture. Which aspect of the McKinsey 7S Model is most relevant for BlueSky Enterprises during this strategic transformation?

(a) Strategy

(b) Structure

(c) Systems

(d) Skills **(2 Marks)**

(iii) The threat of substitutes is high when:

(a) There are few substitute products available

(b) Switching costs are low

(c) Suppliers have high bargaining power

(d) There is strong brand loyalty **(1 Mark)**

PART II – Descriptive Questions (35 Marks)

*Question No. **1** is compulsory.*

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

1. (a) Swati is the marketing manager at a software company. She is responsible for developing and implementing marketing strategies for the company’s products. Swati leads a team of marketing professionals and works closely with the product development and sales teams to ensure that the company's products are effectively promoted in the market. She also analyzes market trends and customer feedback to refine the marketing strategies. Which level is she working at, discuss the roles and responsibilities of this level in organization? **(5 Marks)**

(b) ABC Corp, a multinational consumer electronics company, is planning to expand its operations into a new country. The company's senior management is evaluating the potential risks and opportunities of entering this new market. As part of their analysis, they decide to use the PESTLE framework to assess the external factors that could impact their decision. How can the PESTLE framework help ABC Corp assess the external factors affecting its decision to expand into a new country? **(5 Marks)**

(c) Imagine you are a consultant advising a small manufacturing company embarking on a digital transformation journey. The company's leadership is concerned about managing the change effectively. Using the best practices for managing change in small and medium-sized businesses, outline a strategy to help the company navigate this transformation successfully. **(5 Marks)**

2. (a) Imagine you are a strategic consultant advising a retail company that is facing increasing competition from online retailers. The company is considering several strategic options to improve its market position. Using the concept that strategy is partly proactive and partly reactive, explain how the company can develop a strategic approach to address this challenge. **(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)**

3. (a) A beverage company is launching a new line of energy drinks targeted at health-conscious consumers. The strategic manager wants to study the market position of rival companies in the energy drink segment. Which tool can be used for this analysis, and what is the procedure to implement it effectively? **(5 Marks)**

(b) The CEO of a textile mill believes that his company, currently operating at a loss, can be turned around. Develop an action plan outlining steps the CEO can take to achieve this turnaround. **(5 Marks)**

4. (a) Why Strategic Performance Measures are essential for organizations?

(5 Marks)

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

OR

Distinguish between Concentric Diversification and Conglomerate Diversification. **(5 Marks)**