Mock Test Paper - Series II: April, 2024

Date of Paper: 15 April, 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. Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of ₹ 10,00,000 and since then it has raised funds by IPO taking the total paid up capital to ₹ 1 crore comprising of fully paid-up equity shares of face value ₹ 10 each. The company currently has undistributed reserves of ₹ 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. The current EPS is estimated as Rs 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of ₹ 1,20,00,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4x.

   The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer ₹ 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds.

   The preference shares will have a face value of ₹ 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of

5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed.

The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of ₹ 25,00,000 p.a. Assume marginal tax rate to be 27%.

1. Which of the following is best estimate of cost of equity for Tiago Ltd?

   (a) 12.99%

   (b) 11.99%

   (c) 13.99%

   (d) 14.99%

2. Which of the following is the most accurate measure of issue price of debentures?

   (a) 100

   (b) 96

   (c) 90.58

   (d) 95.88

3. Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)

   (a) 7.64%

   (b) 6.74%

   (c) 4.64%

   (d) 5.78%

4. Calculate the cost of preference shares using approximation method

   (a) 10.23%

   (b) 11.22%

   (c) 12.12%

   (d) 12.22%

5. Which of the following best represents the overall cost of marginal capital to be raised?

   (a) 11.76%

   (b) 17.16%

   (c) 16.17%

   (d) 16.71% **(5 x 2 = 10 Marks)**

2. Ranu & Co. has issued 10% debenture of face value 100 for ₹ 10 lakh. The debenture is expected to be sold at 5% discount. It will also involve floatation costs of ₹ 10 per debenture. The debentures are redeemable at a premium of 10% after 10 years. Calculate the cost of debenture if the tax rate is 30%.

   (a) 8.97%

   (b) 9.56%

   (c) 8.25%

   (d) 10.12% **(2 Marks)**

3. Given Data: Sales is ₹ 10,00,000, Break even sales is ₹ 6,00,000.

   What is the Degree of operating leverage?

   (a) 3

   (b) 2

   (c) 2.5

   (d) 2.2 **(2 Marks)**

4. A project requires an initial investment of ₹ 20,000 and it would give annual cash inflow of ₹ 4,000. The useful life of the project is estimated to be 10 years. What is payback reciprocal/Approximated IRR?

   (a) 20%

   (b) 15%

   (c) 25%

   (d) 12% **(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) The below information for Lever Ltd is provided on annual basis:

	₹
Sales at 3 months credit	48,00,000
Materials consumed (suppliers extend 2 months credit)	12,00,000
Wages paid (one month lag in payment)	9,60,000
Cash manufacturing expenses (paid on month in arrear)	12,00,000
Administrative expense (one month lag in payment)	3,60,000
Sales promotion expense (paid monthly in advance)	1,20,000

The Company sells its products at a gross profit of 20%.

The Company keeps two months stock of raw materials and two months stock of finished goods.

Depreciation is considered as a part of cost of production.

Cash balance is retained at ₹ 1,00,000,

Assuming a 15% margin, COMPUTE the working capital requirements of the Company on cash cost basis. Ignore work-in progress.

(5 Marks)

(b) SOC Ltd has 10 lakh equity shares outstanding at the beginning of the accounting year 2024. The existing market price per share is Rs 600. Expected dividend is Rs 40 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 20%.

(i) CALCULATE the market price per share by the end of the year when expected dividends are: (a) declared, and (b) not declared, based on the Miller – Modigliani approach.

(ii) CALCULATE the number of shares to be issued by the company at the end of the accounting year on the assumption that the net income for the year is Rs 15 crore; investment budget is Rs 20 crores, when (a) Dividends are declared, and (b) Dividends are not declared.

(iii) PROVE that the market value of the shares at the end of the accounting year will remain unchanged irrespective of whether (a) Dividends are declared, or (ii) Dividends are not declared.

(5 Marks)

(c) An existing profitable company, RMC World Ltd. is considering a new project for manufacture of home automation gadget involving a capital expenditure of ₹ 1000 Lakhs and working capital of ₹ 150 Lakhs. The capacity of the plants for an annual production of 3 lakh units and capacity utilization during 5 year life of the project is expected to be as indicated below:

Year	1	2	3	4	5
Capacity Utilization (%)	50	65	80	100	100

The average price per unit of product is expected to be ₹600 netting a contribution of 60 percent. The annual fixed costs, excluding depreciation, are estimated to be ₹500 Lakhs per annum from the third year onwards. For the first and second year, it would be ₹ 200 lakhs and ₹ 350 lakhs respectively.

Scrap value of the capital asset at the end of 5th year is ₹ 200 Lakhs. Depreciation on capital asset is provided on written down value basis @ 40% p.a. for income tax purpose. The rate of income tax may be taken at 30%. The cost of capital is 12%. At end of the third year an additional investment of ₹ 200 lakhs would be required for working capital. There is no capital gain tax applicable.

COMPUTE the NPV of the project. RMC World Ltd. is about to make a presentation to Secure Venture Capital Firm. Secure Venture Capital Firms will invest in any project if the net addition to shareholder wealth from the project is above ₹ 100 lakhs. **(5 Marks)**

2. (a) From the following PREPARE Income statement of company P and Q.

	P	Q
No. of Equity Shares	1,00,000	70,000
Financial leverage	3 : 1	4 : 1
Operating Leverage	2 : 1	3 : 1
Variable cost to sales	67%	50%
Interest	₹ 5,50,000	₹ 6,00,000
Income tax rate	30%	30%

Also CALCULATE EPS of the company. **(4 Marks)**

(b) The GT Limited is willing to expand its business for which it requires an additional finance of ₹ 50,00,000. At present, the capital structure of the company is as under:

- 7,00,000 Equity shares of ₹ 10 each
- 10% Debentures ₹ 63,00,000
- 12% Term loan ₹ 54,00,000
- Retained earnings ₹ 1,30,00,000

At present, the company's EBIT is ₹ 54,00,000. However, the company, after expansion, expects ROI 2% greater than the present ROI, Income Tax Rate is 30%.

Following two options, for getting additional finance, are available-

(a) To raise funds as term loan @ 12%

(b) To raise funds by issuing 1,00,000 equity shares at ₹ 20 per share and balance by issuing 11% debentures at par.

Required:

(i) FIND out the market price of shares, if the P/E ratio is 10.

(ii) RECOMMEND the suitable option of raising funds with reason.

(6 Marks)

3. (a) EOC Ltd is a listed company and has presented the below abridged financial statements below.

Statement of Profit and Loss	**₹**	**₹**
Sales		1,25,00,000
Cost of goods sold		(76,40,000)
Gross Profit		48,60,000

Less: Operating Expenses		
Administrative Expenses	13,20,000	
Selling and Distribution Expenses	15,90,000	(29,10,000)
Operating Profit		19,50,000
Add: Non Operating Income		3,28,000
Less: Non Operating Expenses		(1,27,000)
Profit before Interest and taxes		21,51,000
Less: Interest		(4,39,000)
Profit before tax		17,12,000
Less: Taxes		(4,28,000)
Profit after Tax		12,84,000

Balance Sheet

Sources of Funds	**₹**	**₹**
Owned Funds		
Equity Share Capital	30,00,000	
Reserves and Surplus	18,00,000	48,00,000
Borrowed Funds		
Secured Loan	10,00,000	
Unsecured Loan	4,30,000	14,30,000
Total Funds Raised		**62,30,000**
Application of Funds		
Non-Current Assets		
Building	7,50,000	
Machinery	2,30,000	
Furniture	7,60,000	
Intangible Assets	50,000	17,90,000
Current Assets		
Inventory	38,60,000	
Receivables	39,97,000	
ST investments	3,00,000	
Cash and Bank	2,30,000	83,87,000
Less: Current Liabilities		
Creditors	25,67,000	
ST loans	13,80,000	(39,47,000)
Total Funds Employed		**62,30,000**

The company has set certain standards for the upcoming year financial status.

All the ratios are based on closing figures in financial statements.

Equity SC to Reserves=	1	
Net Profit Ratio=	15%	
Gross Profit Ratio=	50%	
Long Term Debt to Equity=	0.5	
Debtor Turnover=	100	Days
Creditor Turnover (based on COGS)=	100	Days
Inventory=	70%	of Opening inventory

Cash Balance is assumed to remain same for next year

You are required to -

(1) CALCULATE inventory turnover ratio in days for current year

(2) CALCULATE receivables turnover ratio in days for current year

(3) CALCULATE the projected receivables, inventory, payables and long term debt **(8 Marks)**

(b) NAME the various financial instruments dealt with in the International market. **(2 Marks)**

4. (a) WRITE short notes on Inter relationship between investment, financing and dividend decisions. **(4 Marks)**

(b) DISCUSS the liquidity vs. profitability issue in management of working capital. **(4 Marks)**

(c) EXPLAIN the concept of discounted payback period. **(2 Marks)**

OR

(c) EXPLAIN the concept of Indian depository receipts. **(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) Café Delight, a thriving restaurant chain known for its unique blend of Australian and Indian culinary experiences, embarked on a remarkable journey from its humble beginnings as a small café in Australia to becoming a renowned player in the Indian restaurant industry. This case study digs into the strategic decisions and market dynamics that fueled Café Delight's growth, highlighting its transition from a single café in Powai, Mumbai, to a flourishing chain with a presence in five cities and over 25 stores. It explores how Café Delight effectively leveraged social media and adapted its pricing strategy to compete with global brands while maintaining a healthy profit margin.

In 2005, Café Delight was founded in Melbourne, Australia, by a passionate entrepreneur with a vision to bring the flavors of Australia and India together. The first café established in Powai, Mumbai, received accolades for its unique menu, blending Australian coffee culture with Indian culinary traditions. Over the course of five years, Café Delight expanded to three stores in Mumbai, driven by exceptional mouth publicity, customer loyalty, and consistent quality.

As the social media landscape evolved, Café Delight recognized the power of online platforms in reaching a wider audience. By effectively utilizing social media and online marketing, Café Delight expanded its presence to five cities across India and established over 25 stores. Customer engagement through social media platforms enabled the brand to create a strong and vibrant community, driving organic growth.

Café Delight's customer-centric approach involved continuously evolving its menu to cater to the changing tastes and dietary preferences of its patrons. By understanding the evolving needs of its customers, Café Delight could offer personalized menu items, seasonal specials, and dietary alternatives. This approach created a sense of loyalty and engagement among customers, strengthening the brand's appeal. Not just customers but High-power, low-interest stakeholders, including regulatory authorities, were addressed with careful compliance and adherence to industry standards. Low-power, high-interest stakeholders, like potential customers and local communities, were engaged through targeted marketing campaigns and community involvement initiatives. This meticulous stakeholder analysis allowed Café Delight to build and maintain strong relationships with each group, effectively managing their influence and impact on the brand.

With its expanding presence and increasing popularity, Café Delight underwent a shift in its pricing strategy. It transitioned from a pocket-friendly pricing model to a skimming strategy, capitalizing on its unique blend of Australian and Indian flavors to position itself as a premium restaurant. Café Delight faced stiff competition from global brands entering the Indian market but maintained a profit margin of approximately 30% through menu engineering and targeted pricing.

In one of its kind, using strategic tools enabled Café Delight to identify and act on opportunities while mitigating threats, contributing to its long-term success in the highly competitive restaurant industry.

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

(i) Café Delight effectively leveraged social media and adapted its pricing strategy as it stepped into which phase of business life cycle of operations?

(a) Introduction Stage

(b) Growth Stage

(c) Maturity Stage

(d) Decline Stage **(2 Marks)**

(ii) What stakeholder group did Café Delight engage through targeted marketing campaigns and community involvement initiatives?

(a) High-power, high-interest stakeholders

(b) Low-power, low-interest stakeholders

(c) Low-power, high-interest stakeholders

(d) High-power, low-interest stakeholders **(2 Marks)**

(iii) What best describes Café Delight's initial expansion strategy when it expanded from one café to three in Mumbai?

(a) Aggressive price reduction

(b) Leveraging customer loyalty and word-of-mouth publicity

(c) Extensive online marketing

(d) Embracing global branding strategies **(2 Marks)**

(iv) At which level of strategic management does Café Delight's transition from a pocket-friendly pricing model to a skimming strategy fit?

(a) Corporate level

(b) Business level

(c) Functional level

(d) Operational level **(2 Marks)**

(v) What type of strategy did Café Delight use to differentiate itself from competitors in the Indian restaurant industry?

(a) Cost leadership strategy

(b) Focused differentiation strategy

(c) Cost focus strategy

(d) Hybrid strategy **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) Shamita joined GlobalX Consulting firm as an Analyst in financial fraud mitigation. In her very first assignment she faced an integrity dilemma where her subordinates had missed calling out a potential financial risk which could impact the overall fraud rating of the organisation. She quickly reached out to her seniors who appreciated her diligence and immediately reported the same to senior management. In this scenario which element, soft or hard, is acting in favor of GlobalX?

(a) Strategy

(b) Systems

(c) Shared Value

(d) Staff **(2 Marks)**

(ii) Chocopo, an ice cream company run by Shri Shyam Kumar since 1985, now had its management change to his two daughters, who came in and wanted to experiment with a lot of flavors. They introduced 21 new flavors in a span of 6 months while not losing out of 2 legendary flavors of their dad i.e. Stick Kulfi and Mango Bar. After year 1 of operations, 9 out of the 21 flavors had to be stopped, while 10 flavors were still kept, extending the experimentation. The early sense from market was that they would have to be stopped too, but the sisters decided to extend their timelines. What category as per BCG Matrix would the 10 flavors fall into?

(a) Cash Cow

(b) Dog

(c) Question Mark

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

(iii) A company negotiating the best prices and quality from its suppliers to add to customer's delight is an example of?

(a) Value Creation by improving primary activity

(b) Value Creation by improving support activity

(c) Competitive Advantage Creation

(d) Stakeholder Management **(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) ABC retail chain regularly monitors consumer trends and supply chain flexibility. The retail chain tracks consumer trends to adjust its offerings, ensuring they meet customer needs. Simultaneously, it maintains a flexible supply chain to respond swiftly to demand fluctuations. This strategy enables ABC retail chain to anticipate market shifts and adapt to them effectively, ensuring its competitiveness and customer satisfaction. Which type of strategy is the retail chain employing?

(5 Marks)

(b) A Mumbai-based conglomerate, PQR Ltd., has announced a major restructuring of its business operations. The company has decided to split its business into four separate units: Manufacturing, Retail, Services, and Technology. Each unit will operate as a separate business, with delegated responsibility for day-to-day operations and strategy to the respective unit managers. Identify the organization structure that PQR Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure. **(5 Marks)**

(c) *GreenThrift Inc.,* a sustainable clothing retailer, is experiencing a surge in popularity due to the growing awareness of environmental issues among consumers. The company specializes in selling second-hand clothing and upcycled garments, offering an eco-friendly alternative to traditional fast fashion.

A major concern for GreenThrift Inc. is the emergence of new sustainable fashion brands in the market. These brands focus on using organic and recycled materials, as well as ethical manufacturing practices, which align with the values of environmentally conscious consumers.

Identify and explain that competition from new sustainable fashion brands falls under which category of Porter's Five Forces Model for Competitive Analysis? **(5 Marks)**

2. (a) *"*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)**

   (b) *Reshuffle Corp* is a company that manufactures and sells office furniture. They offer a range of products, from desks and chairs to cabinets and shelves. Recently, the company has been facing increased competition from online retailers offering similar products at lower prices.

   Analyzing the characteristics of products in the furniture industry, discuss how *Reshuffle Corp* can differentiate its products to maintain a competitive edge in the market. **(5 Marks)**

3. (a) *EasyLife Corporation,* a leading manufacturer of consumer electronics, is considering launching a new line of smart home devices. As a strategic manager, conduct a SWOT analysis for *EasyLife Corporation* to assess the feasibility and potential success of this new venture. Consider both internal and external factors that could impact the success of the new product line. **(5 Marks)**

   (b) Explain the concept of forward and backward linkages between strategy formulation and implementation in strategic management, using relevant examples. How do these linkages impact the overall strategic decision-making process of an organization? **(5 Marks)**

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

   OR

   Strategic alliances are formed if they provide an advantage to all the parties in the alliance. Do you agree? Explain in brief the advantages of a strategic alliance. **(5 Marks)**