Mock Test Paper - Series I: November, 2024

Date of Paper: 23rd November, 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.

Case Scenario I:

Small bus Company is into manufacturing mini buses. Since its establishment it has seen a phenomenal growth in both its market share and profitability. The financial statements (Statement of P&L and Balance Sheet) are shown below. The company enjoys the confidence of its shareholders who have been rewarded with growing dividends year after year. Last year too, the company had announced 20 per cent dividend, which was the highest in the automobile sector. The company has never defaulted on its loan payments and enjoys a favourable face with its lenders, which include financial institutions, commercial banks and other private debenture holders. The competition in the bus industry has increased in the past few years and the company foresees further intensification of competition with the entry of several foreign bus manufacturers; many of whom are market leaders in their respective countries. The mini bus segment especially, will witness entry of foreign majors in the near future, with latest technology being offered to the Indian customer. Small bus company's management realises the need for large scale investment in upgradation of technology and improvement of manufacturing facilities to beat competition.

While on one hand, the competition in the industry has been intensifying, on the other hand, there has been a slowdown in the Indian economy, which has not only reduced the demand for buses, but also led to adoption of price cutting strategies by various bus manufacturers.

The Company needs ₹ 3,12,50,000 for the investment in technology and improvement of manufacturing facilities. Company has three options for the funds:

I The Company may issue 31,25,000 equity shares at ₹ 10 per share.

II The Company may issue 15,62,500 equity shares at ₹ 10 per share and 1,56,250 debentures of ₹ 100 denomination bearing an 9% rate of interest.

III The Company may issue 15,62,500 equity shares at ₹ 10 per share and 1,56,250 preference shares at ₹ 100 per share bearing an 10% rate of dividend.

The company's earnings before interest and taxes after investment is ₹ 37,50,000. Income tax rate applicable to the company is 40%.

Based on the above facts, the management of the company asked you to answer the following questions (MCQs 1 to 5):

1. What is the EPS under financial plan I?
   (a) ₹ 0.50
   (b) ₹ 0.62
   (c) ₹ 0.72
   (d) ₹ 0.44

2. What is the EPS under financial plan II?
   (a) ₹ 0.70
   (b) ₹ 0.90
   (c) ₹ 0.42
   (d) ₹ 1.10

3. What is the EPS under financial plan III?
   (a) ₹ 0.44
   (b) ₹ 0.70
   (c) ₹ 0.85
   (d) ₹ 1.20

4. What is the EBIT-EPS indifference points by formulae between Financing Plan I and Plan II?
   (a) ₹ 28,12,500.00
   (b) ₹ 29,00,000.00
   (c) ₹ 32,50,666.66
   (d) ₹ 45,15,253.56

5. What is the EBIT-EPS indifference points by formulae between Financing Plan I and Plan III?

   (a) ₹ 36,36,666.66

   (b) ₹ 45,25,000.00

   (c) ₹ 28,56,256.25

   (d) ₹ 52,08,333.33 **(5 x 2 = 10 Marks)**

6. A company has a degree of operating leverage is 2 and degree of financial leverage is 3. If the sales of the company increase by 5% during the next quarter, the Earning Per Share (EPS) will increase by?

   (a) 20%

   (b) 30%

   (c) 50%

   (d) 60% **(2 Marks)**

7. Following are the data on a capital project being evaluated by the management of Aman Ltd.

Particulars	Project A
Annual cost saving	₹ 1,80,000
Useful life	5 years
Internal rate of return	10%
Salvage value	0
PVAF (15,4 years)	3.79

   Based upon the information, the payback period of the project will be

   (a) 2.652

   (b) 2.850

   (c) 3.790

   (d) 3.855 **(2 Marks)**

8. Under Modigliani and Miller's Dividend Irrelevance Theory, a company has ₹1,00,000 to distribute. If it chooses to retain the earnings instead of paying dividends, what happens to shareholder wealth?

   (a) Increases due to reinvestment opportunities.

   (b) Decreases due to lower immediate returns.

   (c) Remains unchanged because value depends on earnings and investment policy.

   (d) Depends on the dividend payout ratio **(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 Industries is a mid-sized company manufacturing consumer goods. Last quarter, the company reported sales of ₹ 2,00,000. The production process involves significant variable costs, which account for 50% of the sales value. Additionally, the company incurs ₹ 40,000 as fixed operating costs for rent, utilities, and management expenses. ABC Industries has also borrowed funds, leading to ₹ 10,000 as annual interest on long-term debt.

The company is currently planning to launch a new marketing campaign aimed at boosting sales by 10%. As a financial analyst at ABC Industries, you are required to:

1. CALCULATE the combined leverage.
2. ILLUSTRATE the impact of the 10% sales increase using the combined leverage. **(5 Marks)**

(b) P Ltd. has the following capital structure at book-value as on 31st March, 2024:

Particulars	**(₹)**
Equity share capital (1,00,000 shares)	10,00,000
12% Preference shares	15,00,000
10% Debentures	15,00,000
	40,00,000

Additional Information:

1. The equity shares of P Ltd. are currently traded at ₹ 100 per share.
2. The company expects to pay a dividend of ₹ 5 per equity share next year, with dividends projected to grow perpetually at a rate of 5% p.a.
3. The corporate tax rate is 35%.

Requirements:

1. CALCULATE the Weighted Average Cost of Capital (WACC) based on the current capital structure.
2. RECALCULATE the WACC if the company raises an additional ₹ 5 lakhs of debt by issuing 12% debentures. This change will result in:
   - An increase in the expected equity dividend to ₹ 7 per share while the growth rate remains constant at 5%.
   - A decrease in the market price of equity shares to ₹90 per share **(5 Marks)**

(c) Vyom Limited, an IT conglomerate, is planning to take over Aryayash Limited, a startup company incorporated 2 years ago but holding a lot of prospects. To determine the buyout consideration, Vyom Limited has approached you as a Finance controller to estimate the fair value of the startup company today based on future earnings estimates. Following details of the startup company are as below -

Expected Sales in the coming year are ₹ 25 lakhs with P/V ratio of 40%. The sales are expected to grow at a rate of 20% for the next 2 years, to 40% for another 2 years, 25% in the 6^{th} year and thereafter cash flows will grow at a steady rate of 10%. Fixed cost for the upcoming year is expected to be 12 lakhs for the first two years, ₹ 10 lakhs thereafter. Loss in any year can be set-off only against the profits of the immediate next year.

Corporate taxes applicable are 25% & 20% to Vyom Limited & Aryayash Limited respectively. Vyom Limited's desired rate of return is 15% & Cost of Capital of Aryayash Limited is 17%.

As a finance controller, CALCULATE the Fair value of Aryayash Limited.

(5 Marks)

2. (a) From the following information pertaining to M/s Anya Co. Ltd., PREPARE its trading, Profit & Loss Account for the year ended on 31 March, 2024 and a summarized Balance Sheet as at that date:

	Amt in ₹
Current Ratio	2.5
Quick Ratio	1.3
Proprietary Ratio (Fixed Assets/ Proprietary Fund)	0.6
Gross Profit to Sale Ratio	10%
Debtors Velocity	40 days
Sales	730,000
Working Capital	120,000
Bank Overdraft	15,000
Share Capital	2,50,000

Closing Stock is 10% more than opening Stock.

Net Profit is 10% of Proprietary Funds. **(6 Marks)**

(b) Paras TMT Ltd. is a TMT manufacturing company with a face value of ₹ 10 per share.

The following information is given about the company:

- The company is expected to grow @ 10% p.a. for next four years then 5% for an indefinite period.
- Rate of return expected by the shareholders on their share investments is 15%.

- Company paid ₹ 4 as dividend per share for the current Financial Year.

FIND out the intrinsic value per share **(4 Marks)**

3. Zomo Ltd. currently has a turnover of ₹ 120 lakhs, 75% of which is on credit. The variable cost ratio is 80%, and the credit terms offered are 2/10, net 30. On the current sales volume, the bad debts are 1%, and the company spends ₹ 1,20,000 annually on administering its credit sales, including staff salaries for credit checking and collection. These costs are avoidable.

In addition:

- 60% of customers avail of the 2% cash discount, and the remaining customers take 60 days on average to pay after the date of sale.
- The book debts are financed by a mix of bank borrowings and owned funds in a 1:1 ratio, with annual costs of 15% and 14%, respectively.

However, Zomo Ltd. is also considering dynamic discounting for its cash customers, which might incentivize more customers to pay earlier by increasing the discount rate. This could lead to a potential reduction in bad debts to 0.8% but may also increase the cost of the discount offered to 2.5%.

A factoring firm has proposed a deal with the following terms: (i) Factor reserve: 12% (ii) Guaranteed payment: 25 days (iii) Interest charges: 15% (iv) Commission: 4% of receivables.

In addition, the company also has the option to extend the credit period for its remaining customers (who do not avail of the discount) to 75 days, which might increase sales by 10% but could result in an increase in bad debts to 1.5%.

Given:

1. The cost of funds is expected to rise to 16% next year.
2. Zomo Ltd. plans to introduce late payment penalties (for customers who take more than 60 days) at 5% of outstanding receivables after 60 days.

Assume a 360-day year.

Required:

- SHOULD Zomo Ltd. opt for dynamic discounting or the factoring firm's offer?
- ANALYZE the impact of extending the credit period on the company's finances.

COMPARE all options and RECOMMEND whether to continue with in-house management, dynamic discounting, or accept the factoring firm's offer.

(10 Marks)

4. (a) A company is evaluating two options for financing its current assets: using short-term loans or long-term loans. HOW should the company balance risk and return in making this decision, and WHAT factors should it consider to ensure optimal financing? **(4 Marks)**

(b) You are a financial consultant for a company that has a very high capital base but low earnings per share (EPS). EXPLAIN over-capitalization. What are the causes and consequences of over-capitalization?"

(4 Marks)

(c) "XYZ Corp. has adopted a strategy to maximize short-term profits by increasing product prices significantly. ANALYZE why this might not be a feasible operational criterion for sustainable growth." **(2 Marks)**

OR

(c) DEFINE Modified Internal Rate of Return method. **(2 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)

Question 1. (A) (Compulsory)

1. (A) EcoForge, a startup specializing in eco-friendly building materials crafted from agricultural waste, entered the highly competitive manufacturing industry with a vision of promoting sustainability. Despite its innovative approach, the company faced significant challenges as a new entrant, including high production costs, limited market visibility, regulatory hurdles, and fierce competition from established players. However, through strategic planning and effective execution, EcoForge successfully navigated these obstacles and positioned itself for sustainable growth.

The company's leadership recognized the importance of understanding its internal strengths and weaknesses, along with external opportunities and threats. This analysis revealed EcoForge's core advantage in sustainability and innovation, contrasted with scalability issues and market pressure from cheaper alternatives. Additionally, market analysis uncovered the potential of urban housing projects as an opportunity, while intense competition posed a significant threat.

EcoForge's leadership focused on creating unique value propositions by emphasizing its eco-friendly materials. This differentiation helped the company appeal to environmentally conscious builders and developers. To expand its market reach, EcoForge adopted strategies to deepen its presence in existing markets and explore new ones. Concurrently, it analyzed the industry landscape and identified the critical influence of regulatory policies and socio-cultural factors shaping consumer preferences.

Internally, EcoForge implemented structural and cultural changes to enhance its operational efficiency and responsiveness. By adopting a Strategic Business Unit (SBU) model, the company streamlined its decision-making process, allowing each product line to adapt quickly to market demands.

Recognizing the need for collaborative leadership, EcoForge's CEO, Ms. Aarti Mehra, invested in leadership training programs for senior managers. This shifted the company's culture from hierarchical to team-driven, encouraging innovation and cross-functional collaboration.

To enhance its competitiveness, EcoForge optimized its production and supply chain processes by addressing inefficiencies and partnering with technology providers. These efforts significantly reduced costs and improved product quality. Simultaneously, the company pursued green certifications and localized marketing efforts to build brand recognition, attracting environmentally conscious clients. Over three years, these initiatives enabled EcoForge to expand into new markets, secure partnerships with leading developers, and increase its revenue by 40%.

By integrating market analysis, operational improvements, and a focus on cost efficiency, EcoForge transitioned from a struggling startup to a leader in sustainable building materials, setting a benchmark for innovation and environmental stewardship in the industry.

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

(i) The SBU model adopted by EcoForge is an example of strategic decision-making at which level?

(a) Corporate Level

(b) Business Level

(c) Functional Level

(d) Operational Level **(2 Marks)**

(ii) EcoForge's strategy of appealing to environmentally conscious builders and developers by emphasizing its eco-friendly materials is an example of which type of generic strategy by Michael Porter?

(a) Cost Leadership

(b) Differentiation

(c) Focussed Cost Leadership

(d) Focussed Differentiation **(2 Marks)**

(iii) The case mentions EcoForge identifying "critical influence of regulatory policies and socio-cultural factors shaping consumer preferences." Which strategic analysis framework is most relevant here?

(a) SWOT Analysis

(b) Value Chain Analysis

(c) PESTLE Analysis

(d) Ansoff's Matrix **(2 Marks)**

(iv) EcoForge's strategy to deepen its presence in existing markets and explore new ones corresponds to which growth strategy in Ansoff's Matrix?

(a) Market Penetration

(b) Market Development

(c) Product Development

(d) Diversification **(2 Marks)**

(v) Which key industry force, as per Porter's Five Forces, is reflected in EcoForge's challenges from cheaper alternatives and intense competition?

(a) Threat of New Entrants

(b) Bargaining Power of Suppliers

(c) Bargaining Power of Buyers

(d) Threat of Substitutes **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) The CEO of GoFlyHigh Airlines has built a high-performance team over five years by closely monitoring performance metrics, setting clear expectations, and motivating employees through rewards and structured improvement plans. Her disciplined and results-focused approach has driven organizational success by fostering accountability and maintaining high standards. This leadership style emphasizes achieving defined goals through a structured framework, balancing performance recognition with corrective measures for sustained excellence. What strategic leadership style does the CEO exhibit?

(a) Entrepreneur Leadership

(b) Transformational Leadership

(c) Transactional Leadership

(d) Intrapreneur Leadership **(2 Marks)**

(ii) UN&T reached out to Mukesh S, an entrepreneur from India to get his team to work on a mega solar energy project and enter India's deccan plateau which enjoys an abundance of sunshine. What strategy is UN&T trying to implement?

(a) Market Penetration

(b) Market Development

(c) Strategic Alliance

(d) Diversification **(2 Marks)**

(iii) Urbankey has a unique capability in rapid prototyping, allowing them to bring new products to market faster than the competitors. Such an advantage can be termed as?

(a) Market Expansion Strategy

(b) Core Competency

(c) Cost Leadership Strategy

(d) Appropriate SWOT Analysis **(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) *Chic Threads*, a boutique fashion brand renowned for its commitment to sustainability and ethical practices, has recently launched a new line of eco-friendly clothing made from recycled materials. The brand recognizes the growing influence of environmentally conscious consumers who actively shape industry standards through their advocacy and purchasing decisions. These consumers align with *Chic Threads'* values and have a significant impact on its market position and reputation. How should *Chic Threads* effectively manage its relationship with environmentally conscious consumers, considering their high power and high interest in shaping the brand's success? **(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)**

   (c) *GreenEdge Solutions*, a mid-sized technology company, has implemented a new strategic plan focused on achieving sustainable growth and strengthening its market presence. The leadership team is determined to monitor the effectiveness of their strategies to ensure they align with the organization's overall goals and objectives. They seek a systematic approach to assess key performance areas critical to their success. What are Strategic Performance Measures (SPM), and how can *GreenEdge Solutions* effectively use them to evaluate and enhance the success of their strategic plan? **(5 Marks)**

2. (a) *Connect Group* was one of the leading makers of the mobile handsets till a few years ago and which went at the bottom of the heap. *Connect Group* didn't adapt to the current market trends, which eventually led to its downfall. Which would have helped *Connect Group* to change, adapt and survive? Explain the steps to initiate the change. **(5 Marks)**

   (b) Define strategic management. Also discuss the limitations of strategic management. **(5 Marks)**

3. (a) *Easy Access* is a marketing services company providing consultancy to a range of business clients. *Easy Access* and its rivals have managed to persuade the Government to require all marketing services companies to complete a time-consuming and bureaucratic registration process and to comply with an industry code of conduct. Do you think that by doing this *Easy Access* and its rivals has an advantage in some ways to fight off competitors? Explain. **(5 Marks)**

   (b) Explain in brief the various basis of differentiation strategies. **(5 Marks)**

4. (a) *Leatherite Ltd.* was started as a leather company to manufacture footwear. Currently, they are in the manufacturing of footwears for males and females. The top management desires to expand the business in leather manufacturing goods. To expand they decided to purchase more machines to manufacture leather bags for males and females. Identify and explain the strategy opted by the top management of *Leatherite Ltd.*

(5 Marks)

(b) Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

OR

Differentiation between Strategic Planning and Operational Planning.

(5 Marks)