

Mock Test Paper - Series I: July, 2024

Date of Paper: 3rd August, 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.

Kaivalyabodhi Limited (**KbL**) has completed 35 years of operations in India. It has many subsidiary & associate companies in more than 100 countries. KbL's business s include home and personal care, foods and beverages, and industrial, agricultural and other products. It is one of the largest producers of soaps and detergents in India. The company has grown organically as well as through acquisitions. Over the years, the company has built a diverse portfolio of powerful brands, some being household names.

It is planning to acquire one of its competitors named Prestige Limited, which would enhance the growth of 'KbL'. The consideration amount will be 1.5X of its average Market Capitalization. Prestige limited has 1,30,000 outstanding equity shares and its shares were traded at an average market price of ₹ 45 as on the valuation date. The consideration amount will be paid equally in 5 years where the first installment is to be paid immediately. Prestige Limited has Ko of 15%

KbL will raise the funds required through debt and equity in the ratio of 30:70. The company requires the cost of capital estimates for evaluating its acquisitions, investment decisions and the performance of its businesses.

KbL's share price has grown from ₹ 150 to ₹ 301 in the last 5 years and it will continue to grow at the same rate. KbL pays dividends regularly. The company has recently paid a dividend of ₹ 8. For the calculation of equity, an average of 52 weeks high market price in the last 5 years is to be considered, which is as follows:

| Yr 1 | Yr 2 | Yr 3 | Yr 4 | Yr 5 |
|---------|---------|---------|---------|---------|
| MPS 185 | MPS 210 | MPS 252 | MPS 325 | MPS 280 |

Ke calculated as per growth model holds a weight of 0.6.

The company also wishes to calculate the equity's expectation using CAPM which holds a weight of 0.4. The risk-free rate is assumed as the yield on long-term government bonds that the company regards as about 8%. KbL regards the market-risk premium to be equal to 11 per cent. Its estimation on the Beta is 0.78.

KbL will issue debentures with FV of ₹ 10,500 which is to be amortised equally over the life of 7 years. The company considers the effective rate of interest applicable to an 'AAA' rated company with a markup of 200 basis points as its coupon rate. It thinks that considering the trends over the years, 'AAA' rate is 7.5%.

Ignore taxation. Based on the above details, answer the question 1 to 5:

- Calculate the cost of equity under both the methods
 - 11%, 16%
 - 18.65%, 10.34%
 - 18.65%, 16.58%
 - 16.5%, 9%
- Calculate the overall cost of equity
 - 17.82%
 - 17.63%
 - 15.37%
 - 35.25%
- Calculate the cost of debt, if the intrinsic value of debenture today is close to ₹ 9,740
 - 15%
 - 12%
 - 9.5%
 - 7.5%
- Calculate the WACC & the amount of purchase consideration
 - 18%, ₹ 90,00,000

- (b) 15.21%, ₹ 87,75,000
(c) 16.07%, ₹ 87,75,000
(d) 15.94%, ₹ 58,50,000
5. Present Value of Purchase consideration is close to ₹
(a) 58,83,032
(b) 67,65,487
(c) 57,35,680
(d) 66,58,997 **(5 x 2 = 10 Marks)**
6. X Ltd has actual Sales of ₹ 20 lakhs and its Break-even sales are at ₹ 15 lakhs. The degree of total risk involved in the company is 6.5. Calculate the % impact on EPS, if EBIT is affected by 12%.
(a) 40%
(b) 78%
(c) 312%
(d) 19.5% **(2 Marks)**
7. Assuming $K_e = 11\%$, $K_d = 8\%$ and $K_o = 10\%$, Debt Equity ratio of the company
(a) 2:3
(b) 3:2
(c) 1:2
(d) 2:1 **(2 Marks)**
8. Given:
Earnings available to the equity shareholders ₹ 30 Lakhs,
Cost of equity is 15%,
Debt outstanding ₹ 150 Lakhs
Value of the firm will be –
(a) ₹ 200 Lakhs
(b) ₹ 250 Lakhs
(c) ₹ 350 Lakhs
(d) ₹ 300 Lakhs **(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) You are required to CALCULATE the Total Current Assets of Ananya Limited from the given information:

| | |
|---------------------|--------------|
| Stock Turnover | = 5 times |
| Sales (All credit) | = ₹ 7,20,000 |
| Gross Profit Ratio | = 25% |
| Current Liabilities | = 2,40,000 |
| Liquidity Ratio | = 1.25 |

Stock at the end is ₹ 30,000 more than stock in the beginning.

(5 Marks)

- (b) Gitarth Limited has a current debt equity ratio of 3:7. The company is presently considering several alternative investment proposals costing less than ₹ 25 lakhs. The company will always raise the funds required without disturbing its current capital structure ratio.

The cost of raising debt and equity are as follows-

| Cost of Project | Kd | Ke |
|--------------------------------|-----|-------|
| Upto 5 lakhs | 10% | 12% |
| Above 5 lakhs & upto 10 lakhs | 12% | 13.5% |
| Above 10 lakhs & upto 20 lakhs | 13% | 15% |
| Above 20 lakhs | 14% | 16% |

Corporate tax rate is 30%, CALCULATE:

- i) Cut off rate for two Projects I & Project II whose fund requirements are 15 lakhs & ₹ 26 lakhs respectively.
- ii) If a project is expected to give an after-tax return of 13%, determine under what conditions it would be acceptable. **(5 Marks)**
- (c) From the following details of X Ltd, PREPARE the Income Statement for the year ended 31st December:

| | |
|--|---------|
| Financial Leverage | 2 |
| Interest | ₹ 2,000 |
| Operating Leverage | 3 |
| Variable Cost as a Percentage of Sales | 75% |
| Income Tax Rate | 30% |

(5 Marks)

2. (a) The financial statements of Gurunath Ltd is furnished below –

Balance Sheet as at 31st March

| Particulars as at 31 st March | | Note | ₹ |
|--|------------------------------------|------|-----------|
| I | EQUITY AND LIABILITIES: | | |
| (1) | Shareholders' Funds: | | 10,00,000 |
| (2) | Non–Current Liabilities: 10% Debt | | 6,00,000 |
| (3) | Current Liabilities | | 1,56,000 |
| | Total | | 17,56,000 |
| II | ASSETS | | |
| (1) | Non–Current Assets | | 16,56,000 |
| (2) | Current Assets – Trade Receivables | | 1,00,000 |
| | Total | | 17,56,000 |

Additional Information:

- The existing credit terms are 1/10, net 45 days and average collection period is 30 days. The current bad debts loss is 1.5%. In order to accelerate the collection process further as also to increase sales, the company is contemplating liberalization of its existing credit terms to 2/10, net 45 days.
- It is expected that sales are likely to increase by 1/3 of existing sales, bad debts increase to 2% of sales and average collection period to decline to 20 days.
- Credit period allowed by the supplier is 60 days. Generally, operating expenses are paid 2 months in arrears. Total Variable expenses of the company constitute Purchases of stock in trade and operating expenses only.
- Opportunity cost of investment in receivables is 15%. 50% and 80% of customers in terms of sales revenue are expected to avail cash discount under existing and liberalization scheme respectively. The tax rate is 30%.
- The Company considers only the relevant or variable costs for calculating the opportunity costs on the funds blocked in receivables. Assume 360 days in a year and 30 days in a month.

Should the company change its credit terms?

(6 Marks)

- (b) The following information is given for QB Ltd.

| | |
|---------------------------------------|-------|
| Earnings per share | ₹ 180 |
| Dividend per share | ₹ 45 |
| Cost of capital | 17% |
| Internal Rate of Return on investment | 20% |

CALCULATE the market price per share using -

- (a) Gordon's formula

(b) Walter's formula **(4 Marks)**

3. (a) Parmarth Limited is a manufacturer of computers. Owing to recent developments in Artificial Intelligence (AI), it is planning to introduce AI in its computer process. This would result into an estimated annual savings as follows:

- (i) Savings of ₹ 3,50,000 in production delays caused by inventory problem.
- (ii) Savings in Salaries of 5 employees with an annual pay of ₹ 4,20,000 per annum
- (iii) Reduction in Lost sales of ₹ 1,75,000
- (iv) Gain due to timely billing is ₹ 3,25,000

The project would result in annual maintenance and operating costs as follows, which are to be paid in advance (at the beginning)

| YEAR | 1 | 2 | 3 | 4 | 5 |
|------|----------|----------|----------|----------|----------|
| COST | 1,80,000 | 2,00,000 | 1,20,000 | 1,10,000 | 1,30,000 |

Furthermore, the new system would need 2 AI specialists' professional drawing salaries of ₹ 6,50,000 per annum per person. The purchase price of the new system for installing AI into computers would involve an outlay of ₹ 21,50,000 and installation cost of ₹ 1,50,000.

75% of the total value for depreciation would be paid in the year of purchase and the balance would be paid at the end of the 1st year. The new system will be sold for ₹ 1,90,000. This is the only asset in the block for Income tax purpose.

The life of the system would be 5 years with the hurdle rate of 12%. Depreciation will be charged at 40% on WDV basis, corporate tax rate is 25% and capital gains tax rate is at 20%.

CALCULATE NPV and advise the management on the acceptability of the proposal. Also calculate ARR & PI. **(8 Marks)**

- (b) DISCUSS the parameters of Lintner's Model. **(2 Marks)**
- 4. (a) DISCUSS the Costs of Availing Trade Credit **(4 Marks)**
- (b) Briefly EXPLAIN the following –
 - i. Fully Hedged Bonds
 - ii. Medium Term Notes
 - iii. Floating Rate Notes
 - iv. Euro Commercial Papers **(4 Marks)**
- (c) WHAT is the range of DOL? **(2 Marks)**

OR

DISCUSS the role of a chief financial officer. **(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) Kriti Pvt. Ltd. has been importing French gourmet cheeses under the brand name of 'Fromage' since 2017. The company was amongst the first in India to introduce innovative unbreakable cheese packaging. Their affiliate, a French company owning Fromage, had entered into a progressive deal, wherein products would be sourced to India via their logistics, and all marketing expenditures would be covered by them. However, customer management and nationwide distribution would be taken care of by Kriti Pvt. Ltd. This required an English-speaking skilled workforce, which has been a constant challenge for the company in India.

The owners of Kriti Pvt. Ltd. have been regular attendees at industry-relevant conclaves, both national and international. Leaders of the company are passionate readers of business magazines. Following that, it was observed that the recent sentiment of the country towards 'Vocal for Local' could disrupt their French brand's marketability. An extraordinary meeting was set up, and the steps ahead were planned.

The outcome of the meeting was to partner with local producers of traditional Indian cheeses in phase one of the change strategy. For this, seven state governments were approached. The team was successful in taking contracts from all the government departments of these seven states and could position themselves fairly in the market. To fund this new investment, they have planned to slowly sell off their French business assets as well as the brand, to probable buyers.

This timely shift is proving to be a game-changer for the company, and the leadership is quite happy with better than before earnings and a much greater response from the customers. They find it easier to operate with domestic producers and vendors, and a sense of patriotism is instilled in the consumers' minds.

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

- (i) Which of the following actions taken by Kriti Pvt. Ltd. is an example of a proactive strategy?
 - (a) Selling off their French business assets.

- (b) Responding to the 'Vocal for Local' sentiment by partnering with local cheese producers.
- (c) Managing customer relations and nationwide distribution.
- (d) Covering all marketing expenditures for 'Fromage' in India.

(2 Marks)

- (ii) Which of the following types of strategic control did the owners and leadership of Kriti Pvt. Ltd. deploy that eventually turned out to be one of the most effective strategic decisions for the company?

- (a) Premise control
- (b) Special alert control
- (c) Implementation control
- (d) Strategic surveillance

(2 Marks)

- (iii) 'Vocal for Local' is a market sentiment that changed customers' preferences for the majority of products across all industries. Based on that, Kriti Pvt. Ltd. gauged the competition it might face in the coming months and agreed to change its own product. Which of the following forces, as per Michael Porter's five forces of competitive analysis, is most relevant in this case?

- (a) Threat of new entrants
- (b) Nature of rivalry in the industry
- (c) Threat of substitutes
- (d) Bargaining power of the buyer

(2 Marks)

- (iv) Which of the following aspects of value chain analysis was the most challenging for Kriti Pvt. Ltd. at the time of selling the Fromage brand?

- (a) Manufacturing
- (b) Outsourcing
- (c) Customer service
- (d) Procurement

(2 Marks)

- (v) To strategically revamp their business, partnerships were done with Indian local producers from seven states, and to fund it, the existing arm of the business was to be sold off. Which of the following strategies has Kriti Pvt. Ltd. opted for?

- (a) Turnaround strategy
- (b) Divestment strategy
- (c) Liquidation strategy

(d) Intensification strategy (2 Marks)

(B) Compulsory Application Based Independent MCQs

(i) TechWave, a software development firm, aims to gain a competitive edge in the rapidly evolving tech industry. To achieve this, they focus on building their strength in artificial intelligence (AI) and machine learning (ML). TechWave invests heavily in R&D, hires top talent with specialized skills, and forms partnerships with leading AI research institutions. They also provide continuous training for their employees to keep them updated with the latest advancements. By developing these, TechWave can create innovative AI-driven solutions that differentiate them from competitors and attract a growing number of clients seeking cutting-edge technology. What strategy is TechWave using to gain a competitive edge in the tech industry?

- (a) Market segmentation
- (b) Diversification
- (c) Core competency building
- (d) Cost leadership

(2 Marks)

(ii) StreamlineCo is examining its internal capabilities to ensure that employees possess advanced knowledge of emerging technologies crucial for the company's future success. This involves investing in specialized training programs and updating job roles to match the latest industry standards. Which aspect of StreamlineCo is being enhanced through specialized training and updated job roles?

- (a) Structure
- (b) Systems
- (c) Skills
- (d) Style

(2 Marks)

(iii) XYZ Corporation has launched AlphaTech to enter the consumer electronics industry with a focus on offering high-performance devices and innovative features at competitive prices. Which competitive strategy is AlphaTech employing?

- (a) Differentiation strategy
- (b) Cost leadership strategy
- (c) Best-cost provider strategy
- (d) Focus strategy

(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) Mr. Arun has been hired as the CEO by ABC Ltd, a pharmaceutical company that has diversified into affordable wellness supplements. The company intends to launch the HealthPlus brand of supplements. ABC wishes to enhance the well-being of people with its products that are beneficial for health and are produced in an environmentally sustainable manner using natural ingredients. Draft a vision and mission statement that may be formulated by Arun. **(5 Marks)**
- (b) GreenGardens, a small but growing organic farm, is assessing its business environment to strategically plan for future growth. The farm boasts high-quality, pesticide-free crops, but faces challenges with its limited distribution channels. As the demand for organic products continues to rise, GreenGardens recognizes the potential to broaden its market reach. However, unpredictable weather conditions and competition from larger farms present significant obstacles. To effectively navigate these challenges and opportunities, GreenGardens needs to conduct a comprehensive evaluation. Identify the type of analysis GreenGardens should conduct to strategically plan for its future growth and outline the grid. **(5 Marks)**
- (c) FreshDelight, renowned for its organic fruit juices, aims to expand its market presence by identifying emerging markets in countries where organic products are gaining popularity. To achieve this, FreshDelight launches targeted marketing campaigns and partners with local distributors to introduce its juices to these new regions. This strategy involves adapting product packaging and marketing messages to align with local preferences and regulations. By entering these new markets, FreshDelight hopes to increase its customer base and drive sales growth. What strategy is FreshDelight using to expand its market presence? **(5 Marks)**
2. (a) The CEO of a textile mill is convinced that his loss-making company can be turned around. Suggest an action plan for a turnaround to the CEO. **(5 Marks)**
- (b) Write a short note on Matrix Structure. **(5 Marks)**
3. (a) "Understanding the competitive landscape is important to build upon a competitive advantage". Explain. **(5 Marks)**

- (b) XYZ Corporation operates in a diverse range of industries, including fashion, lifestyle products, furniture, real estate, and electrical goods. The company is seeking to hire a suitable Chief Executive Officer. As the HR consultant for XYZ Corporation, you have been tasked with outlining the activities involved in the role of the Chief Executive Officer. Identify the strategic level associated with this role and list the activities it encompasses. **(5 Marks)**
4. (a) Buyers can exert considerable pressure on business. Do you agree? Discuss. **(5 Marks)**
- (b) Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss.

OR

What factors should organizations consider when choosing strategic performance measures, and why are these factors important?

(5 Marks)