ANSWERS OF MODEL TEST PAPER 3

INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

PART I – Case Scenario based MCQs

1. 1. (c) Calculation of cost of capital

Capital	Weight	Cost	Product
Debt	0.3	10%	3.00%
Preference	0.2	11%	2.20%
Equity	0.5	15%	7.50%
	Ko=		**12.70%**

2. (a)

3. (c)

4. (d)

5. (a)

Calculation of CFAT

Year		1	2	3	4	5	6
A) No. of quick deliveries p.d.		10,000	12,000	13,800	15,180	15,939	15,939
B) No. of overnight deliveries p.d.		2,000	2,400	2,760	3,036	3,188	3,188
C) No. of quick deliveries p.a.		36,50,000	43,80,000	50,37,000	55,40,700	58,17,735	58,17,735
D) No. of overnight deliveries p.a.		7,30,000	8,76,000	10,07,400	11,08,140	11,63,547	11,63,547
E) Chargeable quick deliveries		18,25,000	21,90,000	25,18,500	27,70,350	29,08,868	29,08,868
F) No. of delivery partners	1.5x(A+B)/ 30	600	720	828	911	956	956
Revenue (in crores)							
From quick deliveries (QD)	(E x 40)	7.30	8.76	10.07	11.08	11.64	11.64
From QD seller commission	(C x 700 x 5%)	12.775	15.330	17.630	19.392	20.362	20.362
From Overnight delivery subscription	(B/2 x 5000)	0.500	0.600	0.690	0.759	0.797	0.797

From OD seller commission	(C x 750 x 7%)	3.83	4.60	5.29	5.82	6.11	6.11
Total Revenue		**24.41**	**29.29**	**33.68**	**37.05**	**38.90**	**38.90**
Cost (in crores)							
Advertising		7	8	10	0	0	0
IT and customer care		8	8	8	8	8	8
Delivery partner salary	(F x 15000)	0.90	1.08	1.24	1.37	1.43	1.43
Delivery partner commission	(C+D) x 20	8.76	10.51	12.09	13.30	13.96	13.96
Depreciation	on investment in year 0	6	6	6	6	6	
	on investment in year 2		4	4	4	4	4
	on investment in year 4				5	5	5
Total Cost		**30.66**	**37.59**	**41.33**	**37.66**	**38.40**	**32.40**
PBT		-6.25	-8.30	-7.65	-0.61	0.51	6.51
Less: Tax		1.56	2.08	1.91	0.15	-0.13	-1.63
PAT		-4.69	-6.23	-5.74	-0.46	0.38	4.88
Add: Depreciation		6.00	10.00	10.00	15.00	15.00	9.00
CFAT		**1.31**	**3.77**	**4.26**	**14.54**	**15.38**	**13.88**

Computation of NPV

Year	Particulars		Cash Flows (in crores)	PVF @ 12.7%	PV (in crores)
0	Investment		-30	1	-30
1	Investment		-20	0.887	-17.75
3	Investment		-25	0.699	-17.46
1	Operating CFAT		1.31	0.887	1.16
2	Operating CFAT		3.77	0.787	2.97
3	Operating CFAT		4.26	0.699	2.98
4	Operating CFAT		14.54	0.620	9.01
5	Operating CFAT		15.38	0.550	8.46
6	Operating CFAT		13.88	0.488	6.77
6	Sale Proceeds	(30+20+25)x2	150	0.488	73.21
	NPV				**39.35**

2. (d) FL=%change in NP/%change in EBIT=6.9/6=1.15

3. (c) Since IRR of projects of company is greater than its cost of capital, the company should retain all ist earnings i.e. DPR = 0. As per walter Po = [0 + (0.15/0.125)10]/0.125 = 96

4. (d) 180 days

PART II – Descriptive Questions

1. (a) Determination of specific costs

(i) Cost Debt (K_d) $= \dfrac{\text{Interest}(1-t)+\dfrac{(RV-NP)}{N}}{\dfrac{(RV+NP)}{2}} = \dfrac{₹11(1-0.35)+\dfrac{(₹100-₹96)}{10\text{ years}}}{\dfrac{(₹100+₹96)}{2}}$

$= \dfrac{₹7.15+₹0.4}{₹98} = 0.077 \text{ or } 7.70\%$

(ii) Cost of Preference Shares (K_p) $= \dfrac{PD+\dfrac{(RV-NP)}{N}}{\dfrac{(RV+NP)}{2}} = \dfrac{₹12+\dfrac{(₹100-₹95)}{10\text{ years}}}{\dfrac{(₹100+₹95)}{2}}$

$= \dfrac{₹12+₹0.5}{₹97.5} = 0.1282 \text{ or } 12.82\%$

(iii) Cost of Equity shares (K_e) $= \dfrac{D_1}{P_0}+G = \dfrac{₹2}{₹22-₹2}+0.07 = 0.17 \text{ or } 17\%$

I – Interest, t – Tax, RV- Redeemable value, NP- Net proceeds, N- No. of years, PD- Preference dividend, D_1- Dividend at the end of the year, P_0- Price of share (net)

Using these specific costs we can calculate the book value and market value weights as follows:

(a) Weighted Average Cost of Capital (K_0) based on Book value weights

Source of capital	Book value (BV)	Specific cost (k) (%)	Total costs [BV (×) k]
Debentures	₹ 8,00,000	7.7	₹ 61,600
Preferences shares	2,00,000	12.8	25,600
Equity shares	10,00,000	17.0	1,70,000
	20,00,000		2,57,200
K_0 = ₹ 2,57,200/₹ 20,00,000 = 12.86 per cent			

(b) Weighted Average Cost of Capital (K_0) based on market value weights

Source of Capital	Market Value (MV)	Specific cost (k) (%)	Total costs [MV (×) k]
Debentures	₹ 8,80,000	7.7	₹ 67,760,
Preference shares	2,40,000	12.8	30,720
Equity shares	22,00,000	17.0	3,74,000
Total capital	33,20,000		4,72,480
K_0 = ₹ 4,72,480/₹ 33,20,000 = 14.23 per cent			

(b) Total Assets = ₹ 400 crores

Total Asset Turnover Ratio = 2.5

Hence, Total Sales = 400 × 2.5 = ₹ 1000 crores

Computation of Profits after Tax (PAT)

	(₹ in crores)
Sales	1000
Less: Variable operating cost @ 65%	650
Contribution	350
Less: Fixed cost (other than Interest)	80
EBIT	270
Less: Interest on debentures (15% × 200)	30
EBT	240
Less: Tax 40%	96
EAT	144

(i) Earnings per share

$$\therefore \text{EPS} = \frac{₹\ 144 \text{ crores}}{10 \text{ crore equity shares}} = ₹\ 14.40$$

(ii) Operating Leverage

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{350}{270} = 1.296$$

It indicates the choice of technology and fixed cost in cost structure. It is level specific. When firm operates beyond operating break-even level, then operating leverage is low. It indicates sensitivity of earnings before interest and tax (EBIT) to change in sales at a particular level.

(iii) Financial Leverage

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{270}{240} = 1.125$$

The financial leverage is very comfortable since the debt service obligation is small vis-à-vis EBIT.

(iv) Combined Leverage

Combined Leverage = $\frac{\text{Contribution}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{EBT}}$ Or Operating Leverage x Financial Leverage

$= 1.296 \times 1.125 = 1.458$

The combined leverage studies the choice of fixed cost in cost structure and choice of debt in capital structure. It studies how sensitive the change in EPS is vis-à-vis change in sales.

(c) Working notes:

1. Computation of Current Assets and Current Liabilities:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2.5}{1} \text{ or } \frac{\text{Current Assets}}{2.5} = \frac{\text{Current Liabilities}}{1} = k \text{ (say)}$$

Or, Current Assets = 2.5 k and Current Liabilities = k

Or, Working capital = (Current Assets – Current Liabilities)

Or, ₹2,40,000 = k (2.5 – 1) = 1.5 k

Or, k = ₹1,60,000

∴ Current liabilities = ₹1,60,000

Current assets = ₹1,60,000 × 2.5 = ₹4,00,000

2. Computation of Inventories

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

$$\text{Or, } 1.5 = \frac{\text{Current assets - Inventories}}{₹1,60,000}$$

Or, 1.5 × ₹1,60,000 = ₹4,00,000 – Inventories

Or, Inventories = ₹1,60,000

3. Computation of Proprietary fund; Fixed assets; Capital and Trade payables

$$\text{Proprietary ratio} = \frac{\text{Fixed assets}}{\text{Proprietary fund}} = 0.75$$

∴ Fixed assets = 0.75 Proprietary fund

and Net working capital = 0.25 Proprietary fund

Or, ₹2,40,000/0.25	=	Proprietary fund
Or, Proprietary fund	=	₹9,60,000
and Fixed assets	=	0.75 proprietary fund
	=	0.75 × ₹9,60,000
	=	₹7,20,000

Capital	=	Proprietary fund – Reserves & Surplus
	=	₹9,60,000 – ₹1,60,000
	=	₹8,00,000
Trade payables	=	(Current liabilities – Bank overdraft)
	=	(₹1,60,000 – ₹40,000)
	=	₹1,20,000

Construction of Balance sheet

(Refer to working notes 1 to 3)

Balance Sheet as at 31st March, 2023

Liabilities	(₹)	Assets	(₹)
Capital	8,00,000	Fixed assets	7,20,000
Reserves & Surplus	1,60,000	Inventories	1,60,000
Bank overdraft	40,000	Current assets (other than inventories)	2,40,000
Trade Payables	1,20,000		
	11,20,000		11,20,000

2. (a)

Ascertainment of probable price of shares of Akash limited

Particulars	Plan (i) (If ₹ 4,00,000 is raised as debt) (₹)	Plan (ii) If ₹ 4,00,000 is raised by issuing equity shares (₹)
Earnings Before Interest (EBIT)	3,60,000	3,60,000
20% on (14,00,000 +4,00,000)		
Less: Interest on old debentures @ 10% on 4,00,000	40,000	40,000
	3,20,000	3,20,000
Less: Interest on New debt @ 12% on ₹ 4,00,000	48,000	——
Earnings Before Tax (After interest)	2,72,000	3,20,000
Less Tax @ 50%	1,36,000	1,60,000
Earnings for equity shareholders (EAIT)	1,36,000	1,60,000
Number of Equity Shares	30,000	40,000
Earnings per Share (EPS)	₹ 4.53	₹ 4.00

Price/ Earning Ratio	8	10
Probable Price Per Share (PE ratio x EPS)	₹ 36.24	₹ 40

Working Notes

		₹
1.	Calculation of Present Rate of Earnings	
	Equity Share capital (30,000x 10)	3,00,000
	10% Debentures $\left(40,000 \times \frac{100}{10}\right)$	4,00,000
	Reserves and Surplus	7,00,000
		14,00,000
	Earnings before interest and tax (EBIT) given	2,80,000
	Rate of Present Earnings = $\frac{2,80,000}{14,00,000} \times 100$	20%
2.	Number of Equity Shares to be issued in Plan	$\frac{4,00,000}{40} = 10,000$
	Thus, after the issue total number of shares	30,000+ 10,000 = 40,000
3.	Debt/Equity Ratio if ₹ 4,00,000 is raised as debt: $\frac{8,00,000}{18,00,000} \times 100 = 44.44\%$	

As the debt equity ratio is more than 40% the P/E ratio shall be 8 in plan (i)

(b) In this case the company has paid dividend of ₹2 per share during the last year. The growth rate (g) is 5%. Then, the current year dividend (D_1) with the expected growth rate of 5% will be ₹ 2.10.

The share price is = $P_o = \frac{D_1}{K_e - g}$

$$= \frac{₹ 2.10}{0.155 - 0.05}$$

$$= ₹ 20$$

In case the growth rate rises to 8% then the dividend for the current year. (D_1) would be ₹ 2.16 and market price would be-

$$= \frac{₹ 2.16}{0.155 - 0.08}$$

$$= ₹ 28.80$$

In case growth rate falls to 3% then the dividend for the current year (D_1) would be ₹ 2.06 and market price would be-

$$= \frac{₹\ 2.06}{0.155 - 0.03}$$

= ₹16.48

So, the market price of the share is expected to vary in response to change in expected growth rate is dividends.

3. Statement showing Working Capital for each policy

(₹ in crores)

	Working Capital Policy		
	Conservative	Moderate	**Aggressive**
Current Assets: (i)	4.50	3.90	2.60
Fixed Assets: (ii)	2.60	2.60	2.60
Total Assets: (iii)	7.10	6.50	5.20
Current liabilities: (iv)	2.34	2.34	2.34
Net Worth: (v)=(iii)-(iv)	4.76	4.16	2.86
Total liabilities: (iv)+(v)	7.10	6.50	5.20
Estimated Sales: (vi)	12.30	11.50	10.00
EBIT: (vii)	1.23	1.15	1.00
(a) Net working capital position: (i)-(iv)	2.16	1.56	0.26
(b) Rate of return: (vii)/(iii)	17.3%	17.7%	19.2%
(c) Current ratio: (i)/(iv)	1.92	1.67	1.11

Statement Showing Effect of Alternative Financing Policy

(₹ in crores)

Financing Policy	**Conservative**	**Moderate**	**Aggressive**
Current Assets: (i)	3.90	3.90	3.90
Fixed Assets: (ii)	2.60	2.60	2.60
Total Assets: (iii)	6.50	6.50	6.50
Current Liabilities: (iv)	2.34	2.34	2.34
Short term Debt: (v)	0.54	1.00	1.50
Long term Debt: (vi)	1.12	0.66	0.16
Equity Capital	2.50	2.50	2.50
Total liabilities	6.50	6.50	6.50
Forecasted Sales	11.50	11.50	11.50
EBIT: (vii)	1.15	1.15	1.15
Less: Interest short-term debt : (viii)	0.06	0.12	0.18
	(12% of ₹ 0.54)	(12% of ₹ 1.00)	(12% of ₹ 1.50)
Long term debt : (ix)	0.18	0.11	0.03
	(16% of ₹ 1.12)	(16% of ₹ 0.66)	(16% of ₹ 0.16)

Earning before tax: (x)-(viii+ix)	0.91	0.92	0.94
Taxes @ 35%	0.32	0.32	0.33
Earning after tax: (xi)	0.59	0.60	0.61
(a) Net Working Capital Position: (i)-[(iv)+(v)]	1.02	0.56	0.06
(b) Rate of return on shareholders Equity capital:(xi)/Equity Capital	23.6%	24%	24.4%
(c) Current Ratio: [(i)/(iv)+(v)]	1.35%	1.17	1.02

4. **(a)** "The profit maximisation is not an operationally feasible criterion." This statement is true because Profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:

(i) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?

(ii) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.

(iii) It ignores the risk factor.

(iv) The term maximization is also vague.

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

(i) Debt capital is cheaper than equity capital from the point of its cost and interest being deductible for income tax purpose, whereas no such deduction is allowed for dividends.

(ii) Issue of new equity dilutes existing control pattern while borrowing does not result in dilution of control.

(iii) In a period of rising prices, borrowing is advantageous. The fixed monetary outgo decreases in real terms as the price level increases.

(c) **Meaning of Weighted Average Cost of Capital (WACC):** The composite or overall cost of capital of a firm is the weighted average of the costs of the various sources of funds. Weights are taken to be in the proportion of each source of fund in the capital structure. While making financial decisions this overall or weighted cost is used. Each investment is financed from a pool of funds which represents the various sources from which funds have been raised. Any decision of investment, therefore, has to be made with reference to the overall cost of capital

and not with reference to the cost of a specific source of fund used in the investment decision.

The weighted average cost of capital is calculated by:

(i) Calculating the cost of specific source of fund e.g. cost of debt, equity etc;

(ii) Multiplying the cost of each source by its proportion in capital structure; and

(iii) Adding the weighted component cost to get the firm's WACC represented by K_0.

$K_0 = K_1 W_1 + K_2 W_2 + \ldots\ldots\ldots$

Where,

K_1, K_2 are component costs and W_1, W_2 are weights.

OR

(c) Assumptions of Modigliani – Miller Theory

(a) Capital markets are perfect. All information is freely available and there is no transaction cost.

(b) All investors are rational.

(c) No existence of corporate taxes.

(d) Firms can be grouped into "equivalent risk classes" on the basis of their business risk.

ANSWERS OF MODEL TEST PAPER 3

PAPER 6B: STRATEGIC MANAGEMENT

PART I

1. (A) (i) (c) (ii) (c) (iii) (d) (iv) (b) (v) (a)

1. (B) (i) (c) (ii) (b) (iii) (d)

PART II

1. (a) In this scenario, the most appropriate strategic approach to help Dharam Veer Singh formulate a robust and coherent business roadmap aligned with his vision for sustainable growth would be to focus on values or a value system. Emphasizing values such as quality, integrity, and sustainability can guide decision-making and attract like-minded investors and clients. By embedding these values into the company's culture and operations, Dharam can differentiate his business in the market, ensuring long-term success and structural longevity in construction projects. This value-driven strategy will also help in building a strong brand reputation and fostering trust among stakeholders.

(b) Considering Porter's generic strategies, there are three different bases: cost leadership, differentiation, and focus. Ravi and Arjun are contemplating pricing for their product.

Ravi is trying to have a low price and high volume, thereby aiming for cost leadership. Cost leadership emphasizes producing standardized products at a very low per unit cost for consumers who are price sensitive.

Arjun desires to create perceived value for the product and charge higher prices. He is trying to adopt differentiation. Differentiation is aimed at producing products and services considered unique industry-wide and directed at consumers who are relatively price insensitive.

(c) XYZ Corporation is shifting to a network structure. This is a newer and more radical organizational design, sometimes referred to as a "non-structure" because it virtually eliminates in-house business functions and outsources many of them. An organization structured in this way is often called a virtual organization, composed of a series of project groups or collaborations linked by constantly changing, non-hierarchical, cobweb-like networks.

The network structure becomes most useful when a firm's environment is unstable and expected to remain so. Under such conditions, there is a strong need for innovation and quick response. Instead of having salaried employees, the company may contract with individuals for specific projects or periods. Long-term contracts with suppliers and distributors replace services the company might otherwise provide through vertical integration. This structure provides increased flexibility

and adaptability to cope with rapid technological change and shifting patterns of international trade and competition.

2. (a) Four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are core competencies. Capabilities that are valuable, rare, costly to imitate, and non-substitutable are core competencies.

i. Valuable: Valuable capabilities are the ones that allow the firm to exploit opportunities or avert the threats in its external environment. A firm created value for customers by effectively using capabilities to exploit opportunities. Finance companies build a valuable competence in financial services. In addition, to make such competencies as financial services highly successful requires placing the right people in the right jobs. Human capital is important in creating value for customers.

ii. Rare: Core competencies are very rare capabilities and very few of the competitors possess these. Capabilities possessed by many rivals are unlikely to be sources of competitive advantage for any one of them. Competitive advantage results only when firms develop and exploit valuable capabilities that differ from those shared with competitors.

iii. Costly to imitate: Costly to imitate means such capabilities that competing firms are unable to develop easily.

iv. Non-substitutable: Capabilities that do not have strategic equivalents are called non-substitutable capabilities. This final criterion for a capability to be a source of competitive advantage is that there must be no strategically equivalent valuable resources that are themselves either not rare or imitable.

(b) XYZ Electronics has opted to implement a Stability strategy. Stability strategies are designed to safeguard the existing interests and strengths of a business. This involves pursuing established and tested objectives, continuing on the chosen path, and maintaining operational efficiency. A stability strategy is pursued when a firm continues to serve the same or similar markets and deals in the same products and services. Although few functional changes are made in the products or markets, it is not a 'do nothing' strategy. This strategy is typical for mature business organizations. Additionally, some small organizations frequently use stability as a strategic focus to maintain a comfortable market or profit position.

Major reasons for a Stability strategy include:

- A product has reached the maturity stage of the product life cycle.
- The staff feels comfortable with the status quo as it involves fewer changes and less risk.
- It is opted for when the environment in which an organization operates is relatively stable.

- Expansion may be perceived as threatening and not advisable.
- After rapid expansion, a firm might want to stabilize and consolidate itself.

3. (a) Yummy foods are proactive in its approach. On the other hand, Tasty Food is reactive. Proactive strategy is planned strategy whereas reactive strategy is adaptive reaction to changing circumstances. A company's strategy is typically a blend of proactive actions on the part of managers to improve the company's market position and financial performance and reactions to unanticipated developments and fresh market conditions.

If organisational resources permit, it is better to be proactive rather than reactive. Being proactive in aspects such as introducing new products will give you advantage in the mind of customers.

At the same time, crafting a strategy involves stitching together a proactive/intended strategy and then adapting first one piece and then another as circumstances surrounding the company's situation change or better options emerge-a reactive/adaptive strategy. This aspect can be accomplished by Yummy Foods.

(b) Change management is essential during digital transformation to ensure the success of the process. Here are some key strategies to navigate change effectively:

- **Specify the digital transformation's aims and objectives:** Clearly defining the intended outcomes and objectives helps ensure everyone is aligned and working towards the same goals.
- **Always communicate:** Regular and transparent communication is crucial to help people understand the goals of digital transformation and how it will impact various stakeholders, including employees, clients, and other parties.
- **Be ready for resistance:** Change, even if beneficial, can be met with resistance. Having a strategy in place to address resistance is important for overcoming challenges and ensuring a smooth transition.
- **Implement changes gradually:** Instead of making all changes at once, gradual implementation allows individuals to adapt to new ways of doing things without feeling overwhelmed by too much change simultaneously.
- **Offer assistance and training:** Providing support, guidance, and training for employees is crucial as they navigate new procedures, software applications, and other aspects of digital transformation.

In conclusion, meticulous planning and effective change management are vital for the successful completion of digital transformation projects. Without proper change management, these efforts are more likely to fail, and organizations can enhance the integration of new digital systems by anticipating and managing the necessary changes.

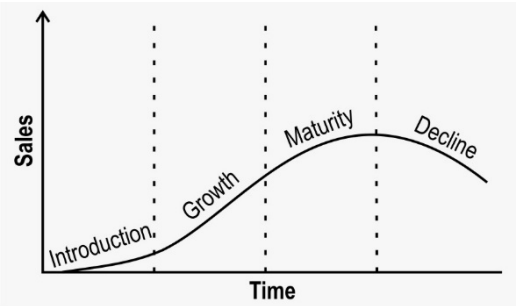
4. **(a)** Product Life Cycle is an important concept in strategic choice and S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages.

The first stage of PLC is the introduction stage in which competition is almost negligible, prices are relatively high and markets are limited. The growth in sales is also at a lower rate.

The second stage of PLC is the growth stage, in which the demand expands rapidly, prices fall, competition increases, and market expands.

The third stage of PLC is the maturity stage, where in the competition gets tough and market gets stabilized. Profit comes down because of stiff competition.

The fourth stage is the declining stage of PLC, in which the sales and profits fall down sharply due to some new products replacing the existing product.



Product Life Cycle

PLC can be used to diagnose a portfolio of products (or businesses) in order to establish the stage at which each of them exists. Particular attention is to be paid on the businesses that are in the declining stage. Depending on the diagnosis, appropriate strategic choices can be made. For instance, expansion may be a feasible alternative for businesses in the introductory and growth stages. Mature businesses may be used as sources of cash for investment in other businesses which need resources. A combination of strategies like selective harvesting, retrenchment, etc. may be adopted for declining businesses. In this way, a balanced portfolio of businesses may be built up by exercising a strategic choice based on the PLC concept.

(b) The business environment consists of both the macro environment and the micro environment. Following are the differences between the two:

- The micro environment refers to the forces that are very close to the company and affect its ability to do routine functions. Macro environment refers to all forces that are part of the larger periphery and distantly affect organization and micro environment.
- Micro environment includes the company itself, its suppliers, marketing intermediaries, customer markets and competitors. Whereas macro environment includes demography, economy, natural forces, technology, politics, legal and socio-cultural.

- The elements of micro environment are specific to the said business and affects it's working on short term basis. The elements of macro environment are general environment and affect the working of all the firms in an industry.

OR

Differences between Operational Control and Management Control are as under:

(i) The thrust of operational control is on individual tasks or transactions as against total or more aggregative management functions. When compared with operational, management control is more inclusive and more aggregative, in the sense of embracing the integrated activities of a complete department, division or even entire organization, instead or mere narrowly circumscribed activities of sub-units. For example, procuring specific items for inventory is a matter of operational control, in contrast to inventory management as a whole.

(ii) Many of the control systems in organizations are operational and mechanistic in nature. A set of standards, plans and instructions are formulated. On the other hand, the basic purpose of management control is the achievement of enterprise goals – short range and long range – in an effective and efficient manner.