MODEL TEST PAPER 3

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. Twigato Ltd is an all equity financed company in the food delivery business and is considering an expansion into quick grocery delivery business segment. It is the market leader in the current food delivery business with a valuation of ₹ 5750 crores. From the discussion in the recent fund-raising meeting with the venture capitalists, it has been noted that the quick delivery business is expected to be run for 6 years, after which it will be sold to another entity for a target valuation of 2 times of the investment made in the business segment. The new segment will be funded by debt, preference and equity shares in the ratio of 3:2:5. The quick grocery delivery would require ₹ 30 crores of investment to start with and subsequently it will require additional infusion of ₹ 20 crores in start of year 2 and ₹ 25 crores of fund infusion in start of year 4. The operating financials of the business is expected to be on following lines for the 1st year of operation.

   No of quick orders = 10000 per day

   No of overnight orders = 2000 per day

   Ticket sizes quick orders: 5000 orders below ₹ 500, 3000 orders between ₹ 500 and ₹ 1000 and 2000 orders above ₹ 1000 with average ticket size being ₹ 700 per order.

   Delivery charges are applicable for orders below ₹ 500, which is flat ₹ 40 per order.

   The company would charge 5% of invoice value from the seller of the quick delivery products and 7% in case of overnight delivery.

   Overnight deliveries would be available to only subscription-based customers and subscription charges are ₹ 5000 p.a. Each overnight order is expected to be having an average ticket size of ₹ 750 per order. Each subscription-based customer is expected to place order every alternate day on an average.

The quantity of orders is expected to be growing at a rate of 20%, 15%,10%, 5% for 1st 4 years of operations. Beyond this it is expected to be remaining constant. The proportion of orders is expected to remain unchanged.

To attract the prospective customers, it is likely to spend heavily on advertising in initial years. The advertising and promotional activities would cost ₹ ₹ 7 crores, ₹ 8 crores and ₹ 10 crores in year 1,2 and 3 respectively.

Remuneration to delivery partners will be ₹ 15000 p.m. fixed plus ₹ 20 per delivery. Each delivery partner can deliver an average of 30 orders per day. An additional provision of 50% of extra delivery partners to be made to consider the unexpected spike in orders on special occasions and holidays. The IT infrastructure and customer care expenses would amount to ₹ 8 crores each year.

Income Tax allows 20% p.a. depreciation on straight line basis for any fresh investments. Applicable tax rate can be taken as 25%. The after-tax cost of debt, preference share, and equity share would amount to 10%, 11% and 15% respectively.

Assume 365 days in a year.

1. Which of the following is the best estimate of discounting rate for the project?
   (a) 12.00%
   (b) 11.55%
   (c) 12.70%
   (d) 13.75%

2 Which of the following is the best measure of delivery partners required in year 1?
   (a) 600
   (b) 720
   (c) 828
   (d) 911

3. Which of the following is the best measure of total revenue in year 3?
   (a) 30 crores
   (b) 25.78 crores
   (c) 33.66 crores
   (d) 25.91crores

4. Which of the following years best represents the years of loss?
   (a) Year 1 only
   (b) Year 1 and 2 only

(c) Year 1,2 and 3 only

(d) Year 1,2,3 and 4 only

5. Which of the following in the best measure of NPV of the project?

(a) 39.35 crores

(b) -25.63 crores

(c) 23.76 cores

(d) -35.67 crores **(5 x 2 = 10 Marks)**

2. If EBIT increases by 6%, taxable income increases by 6.9%. If sales increase by 6%, taxable income will increase by 24%.

Financial leverage must be -………….

(a) 1.19

(b) 1.13

(c) 1.12

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

3. The earning per share of the company is ₹10. It has an internal rate of return of 15%& capitalisation rate of the same risk class is 12.5%if the walters model is used, what should be the price of a share of optimum payout.

(a) 92

(b) 94

(c) 96

(d) 98 **(2 Marks)**

4. Packing credit by an exporter is required to be liquidated within

(a) 12 months

(b) 3 months

(c) 90 days

(d) 180 days **(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) As a financial analyst of a large electronics company, you are required to DETERMINE the weighted average cost of capital of the company using (a) book value weights and (b) market value weights. The following information is available for your perusal.

The Company's present book value capital structure is:

Debentures (₹ 100 per debenture)	₹ 8,00,000
Preference shares (₹ 100 per share)	2,00,000
Equity shares (₹ 10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are:

Debentures, ₹ 110 per debenture, Preference shares, ₹ 120 per share, and Equity shares, ₹ 22 per share

Anticipated external financing opportunities are:

(i) ₹ 100 per debenture redeemable at par; 10 year maturity, 11 per cent coupon rate, 4 per cent flotation costs, sale price, ₹ 100

(ii) ₹ 100 preference share redeemable at par; 10 year maturity, 12 per cent dividend rate, 5 per cent flotation costs, sale price, ₹ 100.

(iii) Equity shares: ₹ 2 per share flotation costs, sale price = ₹ 22.

In addition, the dividend expected on the equity share at the end of the year is ₹ 2 per share, the anticipated growth rate in dividends is 7 per cent and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35 per cent. **(5 Marks)**

(b) A Company had the following Balance Sheet as on March 31, 2023:

Liabilities and Equity	₹ (in crores)	Assets	₹ (in crores)
Equity Share Capital (Ten crore shares of ₹ 10 each)	100	Fixed Assets (Net)	250
		Current Assets	150
Reserves and Surplus	20		
15% Debentures	200		
Current Liabilities	80		
	400		400

The additional information given is as under:

Fixed Costs per annum (excluding interest)	₹ 80 crores
Variable operating costs ratio	65%
Total Assets turnover ratio	2.5
Income-tax rate	40%

Required:

CALCULATE the following and comment:

(i) Earnings per share

(ii) Operating Leverage

(iii) Financial Leverage

(iv) Combined Leverage. **(5 Marks)**

(c) From the following information, PREPARE a summarised Balance Sheet as at 31st March, 2023:

Working Capital	₹ 2,40,000
Bank overdraft	₹ 40,000
Fixed Assets to Proprietary ratio	0.75
Reserves and Surplus	₹ 1,60,000
Current ratio	2.5
Liquid ratio	1.5

(5 Marks)

2. (a) Akash Limited provides you the following information:

	₹
Profit (EBIT)	2,80,000
Less Int. on Debt@10%	40,000
EBT	2,40,000
Less Income Tax@50%	1,20,000
	1,20,000
No. of Equity Shares (₹ 10 each)	30,000
Earning per share (EPS)	4
Price /EPS (PE) Ratio	10

The company has reserves and surplus of Rs, 7,00,000 and needs ₹ 4,00,000 further for expansion. There is no change in Return on Capital Employed. You are informed that a debt (debt/ debt +equity) ratio higher than 40% will push the P/E ratio down to 8 and raise the interest rate on additional borrowings (debentures) to 12%. You are required to ASCERTAIN the probable price of the share.

(i) If the additional funds are raised as debt; and

(ii) If the amount is raised by issuing equity shares at ruling market price. **(6 Marks)**

(b) A firm had been paid dividend at ₹ 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. DETERMINE the estimated market price of the equity share if the estimated growth rate of dividends (i) rises to 8%, and (ii) falls to 3%. Also COMPUTE the present market price of the share, given that the required rate of return of the equity investors is 15.5%. **(4 Marks)**

3. A company is considering its working capital investment and financial policies for the next year. Estimated fixed assets and current liabilities for the next year are ₹ 2.60 crores and ₹ 2.34 crores respectively. Estimated Sales and EBIT depend on current assets investment, particularly inventories and book-

debts. The financial controller of the company is examining the following alternative Working Capital Policies:

(₹ Crores)

Working Capital Policy	Investment in Current Assets	Estimated Sales	EBIT
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the Financial Controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use ₹ 2.50 crores of the equity funds. The corporate tax rate is 35%. The company is considering the following debt alternatives.

(₹ Crores)

Financing Policy	Short-term Debt	Long-term Debt
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average	12%	16%

You are required to CALCULATE the following:

(1) Working Capital Investment for each policy:

(a) Net Working Capital position

(b) Rate of Return

(c) Current ratio

(2) Financing for each policy:

(a) Net Working Capital position.

(b) Rate of Return on Shareholders' equity.

(c) Current ratio. **(10 Marks)**

4. (a) The profit maximization is not an operationally feasible criterion." COMMENT on it. **(4 Marks)**

(b) "Financing a business through borrowing is cheaper than using equity." Briefly EXPLAIN**.** **(4 Marks)**

(c) WHAT is meant by weighted average cost of capital? **(2 Marks)**

OR

(c) EXPLAIN in brief the assumptions of Modigliani-Miller theory.**(2 Marks)**

MODEL TEST PAPER 3

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) Dr. Mikesh Gupta, Agriculture Management Guru at a leading management school in Patna, has been driving the business of E-Bandhu with seven of his students since 2017. This business has two core objectives: first, sustainable farming awareness and second, seasonal availability of agricultural inputs. It is a technology driven business wherein they have a one stop shop for all agricultural products available to farmers at competitive prices. Business is quite challenging, given the fact that farmers in the region are not well aware of the use of technology.

In the summer of 2019, the team decided to redefine their business strategy to succeed in the agricultural sector. They formulated a new definition and made strategic decisions to leverage their core competencies.

Firstly, they shifted their target market from directly serving farmers to onboarding wholesalers and retailers into the system and selling products to them. This strategic move was based on the understanding that wholesalers and retailers could influence technology adoption among farmers.

Secondly, they outsourced logistics to MaalGaadi, a rural supply chain management company. This decision helped E-Bandhu reduce asset procurement costs and corresponding debt, thus strengthening their position in the market.

Thirdly, they introduced a new service-based product, ChaaraVidya, in their application. ChaaraVidya aims to educate farmers about the latest sustainable farming practices being implemented around the world. This addition could potentially be a game-changer for E-Bandhu in the agro startup circle, further enhancing their core competency in promoting sustainable farming practices and technology adoption.

The team is enthusiastic about the strategic changes brought in by Dr. Mikesh and anticipates a more sustainable future for their idea.

Based on the above case scenario, answer the multiple-choice questions.

(i) Switching from direct selling to marketing through wholesalers and retailers was a strategic decision taken by the management. Such decisions help an organization to be more of which of the following?

(a) Authoritative

(b) Futuristic

(c) Proactive

(d) Regularised **(2 Marks)**

(ii) ChaaraVidya was brought into the market to increase farmer awareness of soil quality and the latest sustainable farm practices from around the world? What kind of growth strategy will it fall under?

(a) Market penetration

(b) Market development

(c) Product development

(d) Diversification of business **(2 Marks)**

(iii) One of the most strategically advantageous decisions for E-Bandhu was to get into a contract with MaalGaadi. Which of the following could not be an advantage for E-Bandhu from this alliance?

(a) Cost savings

(b) Reduced delivery time

(c) Improved customer satisfaction

(d) Increased inventory of products **(2 Marks)**

(iv) How does E-Bandhu utilize Michael Porter's Five Forces model in its strategic decision-making process?

(a) By focusing on industry rivalry and competitive pricing

(b) By analyzing the bargaining power of suppliers and buyers

(c) By assessing the threat of new entrants and substitutes

(d) All of the above **(2 Marks)**

(v) What are the core objectives of E-Bandhu, as mentioned in the case study?

(a) Sustainable farming awareness and seasonal availability of agricultural inputs

(b) Technology-driven solutions and competitive pricing

(c) Onboarding wholesalers and retailers into the system

(d) All of the above **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) Swabhaav, a social media marketing firm introduced an AI based management tool that has the capabilities of managing teams across functions all while being creative. What is the most likely organisational structure post this implementation?

(a) Divisional Structure

(b) Matrix Structure

(c) Hourglass Structure

(d) Network Structure **(2 Marks)**

(ii) A tea farm owners plan to open tea cafes in tourist spots and to sell their own premium tea to build a brand. Which of the following can this be termed as?

(a) Backward Integration

(b) Forward Integration

(c) Diversification

(d) Horizontal Integration **(2 Marks)**

(iii) The process of creating, maintaining, and enhancing strong, value-laden relationships with customers and other stakeholder is:

(a) Social marketing

(b) Augmented marketing

(c) Direct marketing

(d) Relationship marketing **(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) In his pursuit to expand the family business to Dubai, Dharam Veer Singh, the successor of the renowned architect Late Shri Lala Ram Pal Singh, faced a dilemma. Despite receiving positive feedback from various potential investors, a common trend emerged where the emphasis was primarily on swift construction, neglecting the importance of structural longevity. Dharam finds himself at a crossroads. What strategic approach could assist him in formulating a robust and coherent business roadmap that aligns with his vision for sustainable growth?

(5 Marks)

(b) Ravi and Arjun are two friends who are partners in their business of manufacturing premium coffee. Ravi believes in making profits through selling higher volumes of products, hence he advocates for charging lower prices to customers. Arjun, however, believes that higher prices should be charged to create an image of exclusivity and proposes that the product undergo some changes to justify this pricing.

Analyze the nature of the generic strategy used by Ravi and Arjun.

(5 Marks)

(c) Due to the reoccurrence of various variants of the coronavirus, XYZ Corporation is facing an unstable environment and has begun unbundling and disintegrating its activities. It has also started relying on outside vendors to perform these activities. Identify the organizational structure XYZ Corporation is shifting to. Under what circumstances does this structure become useful? **(5 Marks)**

2. (a) There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain. **(5 Marks)**

(b) XYZ Electronics has discovered that its products have reached their maturity stage, and the company is experiencing overcapacity. Consequently, it focuses on maintaining the operational efficiency of its manufacturing facilities. Identify the strategy implemented by XYZ Electronics and provide the reasons for this strategy. **(5 Marks)**

3. (a) Yummy Foods and Tasty Foods are successfully competing in the business of ready to eat snacks in Patna. Yummy has been pioneer in introducing innovative products. These products will give them good sale. However, Tasty Foods will introduce similar products in reaction to the products introduced by the Yummy Foods taking away the advantage gained by the former.

Discuss the strategic approach of two companies. Which is superior?

(5 Marks)

(b) Why is change management crucial during digital transformation, and what are some key strategies for navigating change effectively?

(5 Marks)

4. (a) Write a short note on the Product Life Cycle (PLC) and its significance in portfolio diagnosis. **(5 Marks)**

(b) Distinguish between Micro Environment and Macro Environment.

OR

Distinguish between Operational Control and Management Control.

(5 Marks)