

Time Allowed : 3 hours	Full Syllabus Paper-01	Total : 100 Marks
Financial Management (50 Marks)		
Part I : Case Scenario Based MCQs (15 Marks)		

Q.1 A company is investigating the feasibility of manufacturing one of the components needed for its finished product rather than purchasing it from an outside supplier. The purchase price is ₹ 125 per unit. The equipment needed to make this product can be purchased for ₹ 12,00,000 and is expected to have salvage value of ₹ 3,00,000 at the end of the 6th year. The annual fixed costs (excluding depreciation) are estimated to increase by ₹ 1,00,000. The variable costs of manufacturing each component will be ₹ 30 per unit. Straight line depreciation will be used. The company projects annual needs at 7,500 units of this component per year for the 6 years period.

Advise the company whether it should continue buying from outside suppliers, or start manufacturing on its own. Will your answer be different if the requirement of the company is only 4,000 units per year? Tax rate is 50% and cash flows are to be discounted @ 15%.

You are asked the following:

(i) Initial Investment required

- (a) ₹ 9,00,000 (b) ₹ 10,00,000 (c) ₹ 12,00,000 (d) ₹ 12,00,000 (e) None of the above

(ii) NPV @ 15% for annual requirement of 7,500 units

- (a) ₹ 3,72,250 (b) ₹ 3,27,550 (c) 3,37,250 (d) ₹ 3,52,720

PVFA@15% for 5 years = 3.352 and PVF@15% for 6th year = 0.432

(iii) NPV@15% for annual requirement of 4,000 units

- (a) ₹ 2,56,840 (b) ₹ 256,840(Negative) (c) ₹ 2,65,840 (d) 2,65,840(Negative)

(iv) Investment is financially viable for annual requirement of

- (a) 7,500 units only (b) 4,000 units only
(c) 7,500 units and 4,000 units both (d) None of the above

(v) Here, cash flow are discounted@15%. It is:-

- (a) IRR (b) Multiple IRR (c) Cost of capital (d) can't say **(2x5=10 Marks)**

Q.2 EBIT = ₹ 1,200 Lakhs; EBIT = ₹ 500 Lakhs; Fixed cost = ₹ 800 Lakhs Calculate % increase in EPS if sales increases by 5%

- (a) 5% (b) 10% (c) 15% (d) 20% **(2 Marks)**

Q.3 Goods are sold to customers on terms of 2/40 net 120. 60% customers pay the amount within 40 days for availing discount and remaining 40% customers pay within 120 days.

Calculate Average Collection Period.

- (a) 80 days (b) 72 days (c) 88 days (d) None of the Above **(2 Marks)**

Q.4 ECS Debit Facility is used for:-

- (a) Receiving the funds digitally from large number of persons
(b) Paying the funds digitally to large number of persons
(c) Both of the Above (d) None of the Above **(1 Mark)**

Part II: Descriptive Questions (35 Marks)

Q. No. 5 is Compulsory

Attempt any Two Questions out of remaining three questions.

Q.5 (A) A new project is under consideration in Zip limited, which requires a capital investment of ₹ 4.50 crore. Interest on term loan is 12% and corporate tax rate is 50%. If the debt equity ratio insisted by the financing agencies is 2: 1.

Calculate the point of indifference for the project

if another alternative is to raise the total funds by issue of equity shares. The face value of equity share is ₹ 10.

(5 Marks)

(B) Calculate the P/E ratio from the following: -

Equity share capital (₹ 20 each)- ₹50,00,000	Operating profit -₹25,00,000
Reserves and Surplus -₹5,00,000	Income-tax rate -50%
Secured loans at 15% -₹25,00,000	Market price per share -₹ 50
Unsecured loans at 12.5% -₹10,00,000	

(5 Marks)

(C) Calculate before tax WACC on the basis of the following: -

Shareholders' Funds: Equity Capital	₹ 5,00,000
Preference Capital	₹ 1,00,000
Reserves	₹ 3,00,000
Borrowed Funds: Secured Loan	₹ 8,00,000
Unsecured Loan	₹ 7,00,000
Total Capital Employed	₹ 24,00,000

Additional Information: -

Equity dividend - 15%	Interest on unsecured loan - 20%
Preference dividend - 12%	Tax Rate - 40%
Interest on secured loan - 16.25%	

(5 Marks)

Q.6 (A) The management of JP & Co. Ltd. has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is **detailed** below: -

Particulars	Cost per unit (₹)
Raw Materials	20
Direct Labour	5
Overheads (including depreciation ₹ 5)	20
Total cost	45
Profit	5
Selling prices	50

Past trends indicate that the raw materials are held in stock, on an average, for two months. Work-in-process will approximate to $\frac{1}{2}$ month's production. Finished goods remain in warehouse, on an average, for 1 month. Suppliers of materials extend 1 month's credit. Two month's credit is normally allowed to debtors. A minimum cash balance of ₹ 25,000 is expected to be maintained. The production pattern is assumed to be even during the year. Cash sales are 75% less than the credit sales. Safety margin 20%. You are **required** to prepare a Statement of working capital determination.

(8 Marks)

(B) Explain Financial BEP

(2 Marks)

Q.7 (A) Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage for following firms and interpret the results:

Particulars	P	Q	R
Output (Units)	2,50,000	1,25,000	7,50,000
Fixed cost (₹)	5,00,000	2,50,000	10,00,000
Unit variable cost (₹)	5	2	7.50
Unit selling price (₹)	7.50	7	10.0
Interest expenses (₹)	75,000	25,000	-

(8 Marks)

(B) Explain Dividend-Payout Ratio.

(2 Marks)

Q.8 (A) Discuss the importance of Financial Management

(4 Marks)

(B) Explain Venture Capital Financing

(4 Marks)

(C) Write the formula of Profitability Index (PI) along with decision-making rule.

(2 Marks)

Strategic Management (50 Marks)

Part I : Case Scenario Based MCQs (15 Marks)

Q.9 Mr. Ramesh Cleared in his Chartered Accountancy course in Nov.1996 attempt for which the result was declared by ICAI in Jan. 1997. He decided immediately to start his own practice in a small office near his home which he took on rent @ ₹ 5,000 p.m. During first 5 years of his practice, Mr. Ramesh faced very difficult times in which he was earning just sufficient amount to absorb his office expenses and meet his personal expenses.

The year 2002 was very much lucky for him because his client base increased manifold and his professional income increased substantially. Also, in the same year, he got married to Rashmi who is also a Chartered Accountant. They decided to practice jointly in the name of the firm “RR and Associates”. They divided the professional work in such a way that Account and Audit requirements of client are mainly managed by Ramesh and Taxation and other matters are mainly managed by Rashmi. Both of them work in a co-ordinated manner and earned huge name, fame and wealth.

In the year 2012, they decide to expand their CA practice and open new offices in various cities and appoint new Chartered Accountants to take care of the professional requirements. They further decided to form separate divisions for dealing with separate requirements of individuals, HUFs, Firms and Companies as their client base.

In the year 2022, they decide to further expand and enter into two more divisions, i.e., stock market trading and currency management for overseas sale and purchase activities of various clients. They are handling these two areas also very effectively for last two years.

Based on above, answer the following:-

- (i)** What kind of organization structure was adopted by Mr. Ramesh during initial five years of his CA practice, i.e., year 1997 to the year 2002
- | | | |
|----------------------------------|----------------------------------|------------------|
| (a) Simple Structure | (b) Complex Structure | |
| (c) Simply Complicated Structure | (d) Complicated Simple Structure | (2 Marks) |
- (ii)** What kind of organization structure was adopted by RR and Associates from the year 2002 to the year 2012
- | | | |
|--------------------------|-----------------------------------|------------------|
| (a) Simple Structure | (b) Divisional Structure | |
| (c) Functional Structure | (d) Strategic Business Unit (SBU) | (2 Marks) |
- (iii)** What kind of organization structure was adopted from the year 2012 to the year 2022
- | | | |
|-------------------------------------|------------------------|------------------|
| (a) Divisional Structure | (b) Matrix Structure | |
| (c) Divisional-cum-Matrix Structure | (d) None of the Above. | (2 Marks) |
- (iv)** What kind of organization structure has been adopted from the year 2022 onwards:-
- | | | |
|--------------------------------|-----------------------------------|------------------|
| (a) Matrix Structure | (b) Strategic Business Unit (SBU) | |
| (c) Multi Divisional Structure | (d) All of the Above. | (2 Marks) |
- (v)** Suppose, due to technological advancement, the role of middle level management is decreasing day-by-day. Also, the role to be played by the managers at the top level or low is either constant or increasing day-by-day. In such a case, we observe
- | | | |
|-----------------------|--------------------------|------------------|
| (a) Network Structure | (b) Matrix Structure | |
| (c) SBU | (d) Hourglass Structure. | (2 Marks) |

Q.10 Every strategy is based upon certain assumptions like inflation, technology and political situation. Such assumptions need to be verified and checked from time-to-time. It is known as

- | | | |
|------------------------------|-----------------------------|------------------|
| (a) Assumptions Control | (b) Pre-assumptions Control | |
| (c) Post-assumptions Control | (d) Premise Control | (2 Marks) |

Q.11 During complicated and turbulent business conditions, which leadership skill will be evaluated:-

- | | | |
|-------------------------------|-----------------------------|------------------|
| (a) Transformation leadership | (b) Transitional leadership | |
| (c) Both of the Above | (d) None of the Above. | (2 Marks) |

Q.12 Kurl Lewin’s Model of change can be categorized as:-

- | | | |
|---------------------------------|---------------------------------|-----------------|
| (a) Unfreeze, Change & Refreeze | (b) Refreeze, Change & Unfreeze | |
| (c) Change, Unfreeze & Refreeze | (d) Change, Refreeze & Unfreeze | (1 Mark) |

Part II: Descriptive Questions (35 Marks)**Q. No. 13 is Compulsory****Attempt any Two Questions out of remaining three questions.**

- Q.13 (A)** Dharam Singh, the procurement department head of Cyclix, a mountain biking equipment company, was recently promoted to look after sales department along with procurement department. His seniors at the corporate level have always liked his way of leadership and are assured that he would ensure the implementation of policies and strategies to the best of his capacity but have never involved him in decision making for the company. Do you think this is the right approach? Validate your answer with logical reasoning around management levels and decision making. **(5 Marks)**
- (B)** Eco-carry bags Ltd., a recyclable plastic bags manufacturing, and trading company has seen a potential in the ever-growing awareness around hazards of plastics and the positive outlook of the society towards recycling and reusing plastics. A major concern for Eco-carry bags Ltd. are paper bags and old cloth bags. Even though they are costlier than recyclable plastic bags, irrespective, they are being welcomed positively by the consumers. Identify and explain that competition from paper bags and old cloth bags fall under which category of Porter's Five Forces Model for Competitive Analysis? **(5 Marks)**
- (C)** Mr. Banerjee is head of marketing department of a manufacturing company. His company is in direct competition with thirteen companies at national level. He wishes to study the market positions of rival companies by grouping them into like positions. Name the tool that may be used by Mr. Banerjee? Explain the procedure that may be used to implement the technique. **(5 Marks)**
- Q.14 (A)** Organo is a large supermarket chain. It is considering the purchase of a number of farms that provides Organo with a significant amount of its fresh produce. Organo feels that by purchasing the farms, it will have greater control over its supply chain. Identify and explain the type of diversification opted by Organo? **(5 Marks)**
- (B)** X Pvt. Ltd. had recently ventured into the business of co-working spaces when the global pandemic struck. This has resulted in the business line becoming unprofitable and unviable, and a failure of the existing strategy. However, the other businesses of X Pvt. Ltd. are relatively less affected by the pandemic as compared to the recent co-working spaces. Suggest a strategy for X Pvt. Ltd. with reasons to justify your answer. **(5 Marks)**
- Q. 15 (A)** Manoj started his telecom business in 2010. Over next five years, he gradually hired fifty people for various activities such as to keep his accounts, administration, sell his products in the market, create more customers, provide after sales service, coordinate with vendors. Draw the organization structure Manoj should implement in his organization and name it. **(5 Marks)**
- (B)** Sanya Private Limited is an automobile company. For the past few years, it has been observed that the progress of the company has become stagnant. When scrutinized, it was found that the planning department was performing fairly well but the plans could not be implemented due to improper use of resources, undesirable tendencies of workers and non-conformance to norms and standards. You are hired as a Strategic Manager. Suggest the elements of process of control to overcome the problem. **(5 Marks)**
- Q.16 (A)** Explain Stability Strategy along with the reasons for strategy adopting this strategy. **(5 Marks)**
- (B)** How can operational Management Matrix be effectively used in the organization **(5 Marks)**