Time Allowed : 3 hours	Full Syllabus Solutions-01	Total : 100 Marks

Part I : Case Scenario Based MCQs (15 Marks)

Ans. to Q.1

(i) Option (c)	(ii) Option (a)	(iii) Option (b)	(iv) Option (a)	(v) Option (c)

Initial Investment = ₹ 12,00,000.

Future Cash Inflow:-

	Annual Requirement	
	7,500 Units	**4,000 Units**
Saving in Purchase Cost (@ ₹ 125 p.u.)	9,37,500	5,00,000
(-) V. Mfg. Cost (@ ₹ 30 p.u.)	(2,25,000)	(1,20,000)
(-) Addi. Cash F. Cost	(1,00,000)	(1,00,000)
(-) Depreciation	(1,50,000)	(1,50,000)
↑ in PBT	4,62,500	1,30,000
(-) Tax @ 50%	(2,31,250)	(65,000)
↑ in PAT	2,31,250	65,000
(+) Addi Depreciation	1,50,000	1,50,000
Diff. Cash Inflow (Yrs. 1 to 5)	3,81,250	2,15,000
(+) Salvage Value	3,00,000	3,00,000
Cash Inflow (Yr.6)	6,81,250	5,15,000

NPV @ 15%

		7,500 Units p.a.		4,000 Units p.a.	
Year	**PVF@15%**	**Cash In**	**PV**	**Cash In**	**PV**
1 to 5	3.352	3,81,250		2,15,000	
6	0.432	6,81,250 p.a.		5,15,000	
		PV of Cash Inflows	15,72,250		9,43,160
		(-) Initial Investment	(12,00,000)		(12,00,000)
		NPV	3,72,250		(-) 2,56,840

Conclusion: -Investment is recommended when annual requirement is 7,500 units because NPV is a + ve amount.

Ans. to Q.2

Option (d)

Ans. to Q.3

Option (b)

Ans. to Q.4

Option (a)

Ans. to Q.5 (A)

Option 1	Debt financing	₹ 4.5 crores × 2/3 = ₹ 3 crores
	Equity financing	₹ 4.5 crores × 1/3 = ₹ 1.5 crores
	No. of equity shares	15,00,000
	Interest	12% of ₹ 3 crores = ₹ 36,00,000
Option 2	Equity financing	₹ 4.5 crores (total)
	No. of equity shares	45,00,000
	Interest	Nil

Point of indifference = $\frac{(EBIT - I_1)(1 - T)}{N_1} = \frac{(EBIT - I_2)(1 - T)}{N_2}$,**Solving** we get EBIT = ₹ 54,00,000

Hence, at EBIT level of ₹ 54,00,000, equal EPS will be obtained in both the options.

Ans. to Q.5 (B)

Particulars		**Amount (₹)**
Operating Profit		25,00,000
Less: Interest on secured loans @ 15%	3,75,000	
Unsecured loans @ 12.5%	1,25,000	(5,00,000)
Profit before tax (PBT)		20,00,000
Less: Income-tax @ 50%		(10,00,000)
Profit after tax (PAT)		10,00,000

No. of equity shares = 2,50,000

$$\text{EPS} = \frac{\text{Profit after tax}}{\text{No. of Equity shares}} = \frac{₹\,10,00,000}{2,50,000} = ₹\,4$$

Market price per share=₹ 50

P/E ratio =Market price per share/EPS = ₹ 50/₹ 4= 12.50

Ans. to Q.5 (C)

Source	Amount	Weight	Before tax C/c	WACC
Equity Capital	5,00,000	5/2	25%	5.21%
Preference Capital	1,00,000	1/24	20%	0.83%
Reserves	3,00,000	3/24	25%	3.125%
Secured loan	8,00,000	8/24	16.25%	5.42%
Unsecured loan	7,00,000	7/24	20%	5.83%
	24,00,000			**20.41%**

$$\text{Before tax Ke} = \frac{\text{Dividend}}{\text{1-Tax Rate}} = \frac{15\%}{1-0.4} = 25\% \text{ and Before tax Kp} = \frac{\text{Dividend}}{\text{1-Tax Rate}} = \frac{12\%}{1-0.4} = 20\%$$

Ans. to Q.6 (A)

Statement showing Working Capital Requirement

Particulars	**Amount(₹)**
Stock of Raw Material	10,00,000
Stock of WIP	3,75,000
Stock of Finished Goods	10,00,000
Debtors	16,00,000
Cash in hand	25,000
Total Current Assets	**40,00,000**
Less: Creditors	5,00,000
Working Capital	35,00,000
Add :20% Safety Margin	7,00,000
Sales	42,00,000

Note : 1 Computation of Cash Sales and Credit Sales

Assume Credit Sales = ₹x

Cash Sales = ₹$x$less 75% = 0.25x.

Now,

Credit Sales + Cash Sales = Total Sales

⇒Total Sales = ₹x + ₹ 0.25x = 1.25x

It is observed that credit sale is 80% and cash sale is 20%of total sales.

Note :2 (Monthly Statement)

Raw Materials (25,000 units x ₹ 20 / unit	₹ 5,00,000
Labour Cost (25,000 units x ₹ 5 / unit	₹ 1,25,000
Cash Factory OH (25,000 units x ₹ 15 / unit)	₹ 3,75,000
Cash Production Cost	₹ 10,00,000
Cash Administration Overheads	NIL
Cash Selling Overheads	NIL
Cash Total Cost	₹ 10,00,000
Depreciation (25,000 units x ₹ 5 / unit)	₹ 1,25,000
Total Cost	₹ 11,25,000
Profit	₹ 1,25,000
Sales (25,000 units x ₹ 50 / unit	₹ 12,50,000

Note: 3 (Stock of Raw Material) : Since raw material holding period is 2 months, the stock of raw material is equal to 2 month's consumption, *i.e.* 2 x 5,00,000 = ₹ 10,00,000.

Note: 4 (Stock of WIP): We are given that WIP holding period is ½ month. Assuming that material cost is 100% spent and labour and overheads are 50% spent, the stock of WIP is computed below :

Material (₹ 5,00,000 p.m. $\times 1/2$ month $\times 100\%$)	₹ 50,000	
Wages (₹ 1,25,000 p.m. $\times 1/2$ month $\times 50\%$)	₹ 31,250	
Cash Factory OH (₹ 3,75,000 p.m. $\times 1/2$ month $\times 50\%$)	₹ 93,750	₹ 3,75,000

Note: 5 (Stock of Finished Goods): Since finished goods holding period is 1 month, the stock of finished goods is equal to 1 month cash production cost *i.e.*₹ 10,00,000.

Note : 6 (Debtors): Since debtors collection period is 2 months, the investment is equal to 2 months cash total cost in context of credit sales, *i.e.* $(₹ 10,00,000 \text{ p.m.} \times 80/100) \times 2 \text{ months} = ₹ 16,00,000$

Note: 7 (Creditors): Since creditors' payment period is 1 month, the creditors balance is equal to 1 month credit purchases, *i.e.*₹ 5,00,000.

Ans. to Q.6 (B) **Financial BEP**

Financial BEP: - It means the minimum desired income from operating activities (EBIT) which is sufficient only for absorbing fixed financial payments regarding interest on debt capital and dividend on preference shares. We can apply the following formula:-

$$\text{Financial BEP} = \text{Interest} + \left(\frac{\text{Preference Dividend}}{\text{l - Tax Rate}}\right)$$

Ans. to Q.7 (A)

Particulars	**Firm P(₹)**	**Firm Q (₹)**	**Firm R (₹)**
Sales (Units × Selling price per unit)	18.75	8.75	75.00
Less: Variable costs (Units × Variable cost per unit)	(12.50)	(2.50)	(56.25)
Contribution	6.25	6.25	18.75
Less: Fixed costs	(5.00)	(2.50)	(10.00)
EBIT	1.25	3.75	8.75
Less: Tax	(0.75)	(0.25)	(---)
EBT	**0.50**	**3.50**	**8.75**
Operating Leverage (Contribution/EBIT)	5	1.67	2.14
Financial Leverage (EBIT/EBT)	2.5	1.07	1.00
Combined Leverage (Operating Leverage × Financial Leverage)	12.5	1.787	2.14

Comments: - On the basis of combined leverage, we can conclude that overall risk is at maximum level for **Firm P** and at minimum level for **Firm Q.**

Ans. to Q.7 (B)

$$\text{Dividend - Payout (D/P) Ratio} = \frac{\text{DPS}}{\text{EPS}} \times 100$$

This ratio indicates the proportion of earnings that has been distributed as dividend by the company to the equity shareholders. If EPS of a company is ₹ 10 and DPS is ₹ 4, it means that 40% of earnings is distributed as dividend to equity shareholders. To judge whether the ratio is satisfactory or not, it should be compared with its own past ratios or with the ratios of similar enterprises in the same industry.

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

1) **Recommended for all the organizations:-**
   It is recommended to adopt sound and effective financial management system by all the organizations irrespective of the fact that such organization is small or large or such organization is government controlled or privately managed or such organization has the main objective of earning profit or not.
2) **Bad Financial Management and Good Financial Management:-**
   If finances are badly managed, it may lead to the situation of liquidation. If finances are nicely managed, it may lead to accumulation of wealth over a period of time. Therefore, we can conclude that sound and effective financial management is requirement of all.
3) **Importance in case of developing countries like India:-**
   In developing countries, the resources are limited but there is huge demand from public-at-large. Therefore, it becomes very much necessary to make proper utilization of whatever available resources including finance. The effective and sound financial management ensures the situation of achievement of above mentioned objectives.
4) **Importance in case of newly formed companies:-**
   Here, if funds are properly managed, it will lead to ensuring the survival in initial stages. Thereafter, the position of growth, expansion and diversification may also be archived in future. Therefore, financial management is very effective tool for new as well as old companies.

Ans. to Q.8 (B) **Explain Venture Capital Financing**

1) Great Ideas + Financial Support = Highly Profitable Business Great and brilliant ideas, if supported by appropriate financial arrangements, can be converted into highly profitable business empires, e.g., Uber, Whats-App, Facebook , BYUJ, etc.

2) Venture capital financing means the procedure of financing high risk growth oriented new adventures which are promoted by qualified entrepreneurs who lack funds to give shape to their ideas.

3) It is a type of financing by venture capitalist in the form of seed-funding to new projects. It comes from wealth investors, investment banks or financial institutions who value the possible growth prospects from the new adventure.

4) Since huge amount of funds may have to be invested, it is advised to the venture capitalist to look into all the positive and negative factors before coming to any final conclusion.

5) Venture capital funds may be arranged by way of :-

(i) Equity financing upto 49%

(ii) Conditional Loan.

(iii) Participating debentures (These are unsecured and they participate in profits of the company)

Ans. to Q.8 (C) **Write the formula of Profitability Index (PI) along with decision-making rule**.

Profitability Index (PI) = $\left(\dfrac{\text{PV of Cash Inflows}}{\text{PV of Cash Outflows}}\right)$

Decision-making Rule:-

If PI > I, the investment decision is financially viable.

If PI < I, the investment is not financially viable.

If PI = I, we get indifference situation.

Ans. to Q.9

(i) Option (a)	**(ii) Option (c)**	**(iii) Option (a)**	**(iv) Option (c)**	**(v) Option (d)**

Ans. to Q.10

Option (d)

Ans. to Q.11

Option (a)

Ans. to Q.12

Option (a)

Ans. to Q.13 (A)

Functional Level Managers provide most of the information that makes it possible for business and corporate level managers to formulate realistic and growth oriented strategies. This is so because the functional managers are more close to the customers, suppliers and other operations. Hence, it is important for General Manager to listen to the ideas of functional managers and incorporate such ideas in decision making process. Therefore, the approach adopted by corporate managers of Cyclix Company is not right and they should have involved Mr. Dharam Singh in the decision making process.

Ans. to Q.13 (B)

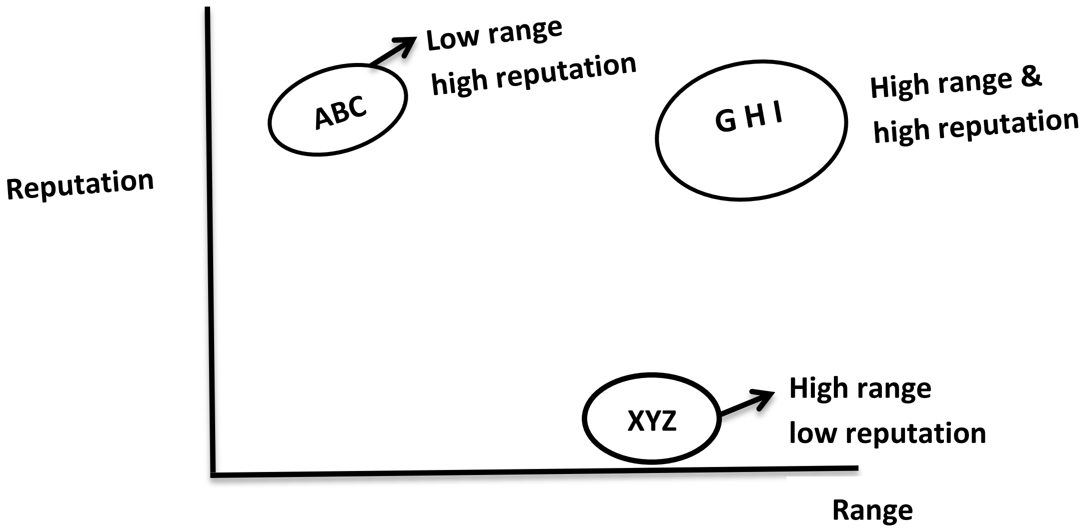
In the given case, the company manufactures eco-carry bags and faces competition from paper bags and old cloth bags. Here, paper bags and old cloth bags can be regarded as substitutes and covered under "Threat of Substitutes" Force in Porter's Five Forces Model for Competitive Analysis.

Substitute Products offering price advantage and performance improvement can drastically change the competition character of the industry. Also, the availability of substitutes can influence the profitability of the product/service.

Ans. to Q.13 (C)

In the given case, Mr. Banerjee is facing direct competition from thirteen companies at the national level. In order to study the market position of rival companies, we can apply the tool of strategic group mapping.

Example:-



Also, the size of circle represents the company's share in market. This procedure is helpful to the organization in understanding its present position regarding range, reputation and market share.

Ans. to Q.14 (a)

In the given case, organo is a supermarket chains which sells those products which uses the ingredient organo in the manufacturing process. Now, it is considering purchase of a number of farms that provide organo with significant amount of fresh produce. It is a type of Vertical Backward Integration where the company will have greater control over the supply chain. When the company enters into the business of input providers, it will lead to the situation of additional production with lesser cost. In a way, the benefit of cost leadership will come which will enable the company to increase its market share by selling extra output at reduced selling prices.

Ans. to Q.14 (b)

In the given case, the company is engaged in the business of providing co-working spaces which has become unprofitable and unviable due to Global Pandemic.

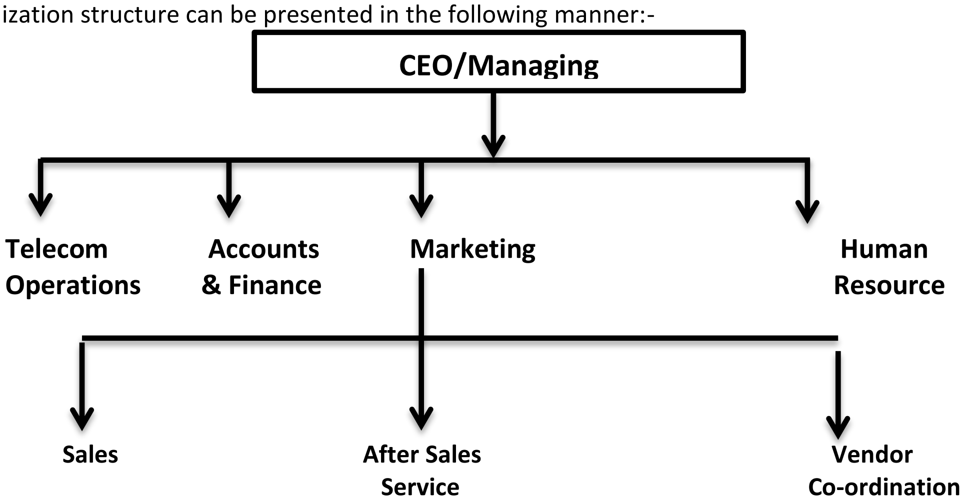
It the company decides to focus on ways and means to reverse the process of decline, in such a case, it is advised to adopt the turnaround strategy.

If it decides to cut-off the loss making units, it may decide to adopt the divestment strategy.

Coming back to the given case, it is clearly mentioned that the business of providing co-working spaces has become unprofitable and unviable. So, the option of Turnaround seems unlikely. Therefore, the option of divestment has to be seriously considered by the company.

Ans. to Q.15 (a)

In the given case, Mr. Manoj is adopting and implementing Functional Organization Structure. In this type of structure, the Chief Executive Officer with assisted by functional line managers such as production manager, Sales Manager, Marketing Manager, Human Resource Manager, Finance Manager, Accounts Manager, etc. In the given case, it is advised to Mr. Manoj to appoint one more Functional Manager for managing the activities of telecom operations. The above mentioned organization structure can be presented in the following manner:-



Ans. to Q.15 (b)

Sanya Ltd. is facing three problems, i.e., improper use of resources, undesirable tendencies of workers and no-conformance to norms and standards. All these problems are indicating the weak control system in the organization.

In order to overcome this problem, the process of control must be introduced with the following elements:-

(a) Objectives of business must be clearly established along with measurable and controllable standards.
(b) Mechanism is to be established for monitoring and measuring the performance of system.
(c) Mechanism is also to be established for comparing the actual results with standard in which deviations are detected so that the management may initiate future corrective action.
(d) Mechanism is also to be established for feeding back the corrective and adaptive information and instructions to the system for bringing the desired change.

Ans. to Q.16 (a)

Stability Strategy along with the reasons for strategy adopting this strategy

Stability Strategy Meaning:-

(1) This type of strategy is employed when the intention is to safeguard the existing market position and the business is satisfied with existing growth parameters
(2) It is suitable for such organizations who have reached the maturity stage of product life cycle or who just want to retain their existing market share.
(3) The firm would have to take all necessary steps for maintaining their existing position. So, it should not be confused with "Do nothing" strategy.

Reasons for Stability strategy:-

(1) The product has reached the maturity stage of its life cycle.
(2) Expansion is perceived as a threat to existing established business.
(3) After rapid expansion, the firm want to stabilize and consolidate itself.

Ans. to Q.16 (b)

Operational Management Matrix:-

Strategic Formulation

Operational Management	Effective	Ineffective
Efficient	1 **Thrive**	2 **Die Slowly**
Inefficient	3 **Survive**	4 **Die Quickly**

Cell 1:- It represents the situation where the organization has framed very effective strategy and operated upon it in very efficient manner (To be effective is to do the right thing and to be efficient is to do the thing right). The organization is very well placed and THRIVES.

Cell 3:- It represents the situation where the organization has framed very effective strategy but operated upon it in a bad manner. Despite such bad performance, the company will SURVIVE. Also, if output/ Input ratio can be improved, there are chances of moving from "SURVIVE" position to "THRIVE" position.

Cell 2:- It represents the position where the organization has framed very ineffective strategy but operated upon it in very efficient manner. This situation has been termed as "Die-Slowly" as it will lead to the situation of liquidation over a period of time.

Cell 4:- Represents the situation where the organization has framed very ineffective strategy and also operated upon it in very inefficient manner. This situation is regarded as "Die-Quickly" as it indicates early liquidation of the organization.