Time Allowed : 3 hours	Full Syllabus Solutions-02	Total : 100 Marks

Part I : Case Scenario Based MCQs (15 Marks)

Ans. to Q.1

(a) Option (iv)	(b) Option (ii)	(c) Option (i)	(d) Option (iii)	(e) Option (i)

Ans. to Q.2

Option (iii)

Ans. to Q.3

Option (ii)

Ans. to Q.4

Option (i)

Ans. to Q.5 (A)

Evacuation of Offers: -

Particulars	Amount (₹)
Increase in sales	2,40,000
Less: Cost of sales (80%)	(1,92,000)
Less: Bad debts (10%)	(24,000)
Increases in PBT	24,000
Less: Tax @ 30%	(7,200)
Increases in PBT	16,800
Less: Cost on investment	(12,000)
Net benefits	**4,800**

Cost on return on investment =₹ 2,40,000× 40% × $\frac{1.5 \text{ months}}{12 \text{ months}}$ = ₹ 12,000

Ans. to Q.5 (B)

Option 1: Interest (I_1) = 12% of ₹ 2,00,000 = ₹ 24,000

No. of equity shares (N_1) = 4,00,000/10 = 40,000

Option 2 Preference dividend (PD_2) = x % of ₹ 2,00,000 = x/100 × 2,00,000 = 2,000 x

No. of equity shares = 4,00,000/10 = 40,000

Point of indifference= $\frac{(EBIT - I_1(1-T)}{N_1} = \frac{(EBIT)(1-T) - PD_2}{N_2}$

$$\frac{(EBIT - 24,000)(1-0.30)}{40,000} = \frac{(EBIT)(1-0.30) - 2,000x}{40,000}$$

We are given that EBIT level of ₹ 2,40,000 produces the situation of indifference point.

Hence, $\frac{(2,40,000 - 24,000)(1-0.30)}{40,000} = \frac{(2,40,000)(1-0.30) - 2,000x}{40,000}$

We get, 1,51,200 = 1,68,000 – 2,000 $x \Rightarrow x = \frac{1,68,000 - 1,51,000}{2,000}$ = 8.4

Therefore, in the given case, the rate of preference dividend is 8.4%

Ans. to Q.5 (C)

Interest (I) = 14% × 25,000 × 1,000 = 35,00,000,

Redemption value (RV) = 25,000 × 1,000 = 2,50,00,000

Net proceed (NP) = 25,000 × 1,000 less (5% + 2%) = 25,000 × 930 = 2,32,50,000

K_d= $\frac{I(1-T) + (RV - NP)/N}{(RV + NP)/2} = \frac{35,00,000(1 - 0.35) + (2,50,00,000 - 2,32,50,000)/5}{(2,50,00,000 + 2,32,50,000)/2} = \frac{26,25,000}{2,41,25,000}$ = 10.88%

Ans. to Q.6

Initial cash outflow - Machine I = ₹ 15,00,000; **Machine II =** ₹ 20,00,000

Future Cash Inflow

Particulars	**Machine I (₹)**	**Machine II (₹)**
Annual Income (before tax and depreciation)	6,25,000	8,75,000
(-) Depreciation	[(1,50,000 - Nil)/5 years] = 3,00,000	[(20,00,000 - Nil)/5 years] =4,00,000
PBT	3,25,000	4,75,000
Less:Tax @ 30%	(97,500)	(1,42,500)
PAT	2,27,500	3,32,500
Depreciation added back	3,00,000	4,00,000
Cash inflows (year 1 to 5)	5,27,500	7,32,500

Computation of NPV @ 12%

		Machine I			**Machine II**		
Year	**PVF @ 12%**	**Cash inflows (₹)**	**Total**	**Cumulative**	**Cash inflows (₹)**	**Total**	**Cumulative**
1	0.893	5,27,500	4,71,058	4,71,058	7,32,500	6,54,123	6,54,123
2	0.797	5,27,500	4,20,418	8,91,476	7,32,500	5,83,803	12,37,926
3	0.712	5,27,500	3,75,580	12,67,056	7,32,500	5,21,540	17,59,466
4	0.636	5,27,500	3,35,490	16,02,546	7,32,500	4,65,870	22,25,336
	0.567	5,27,500	2,99,093	19,01,636	7,32,500	4,15,328	26,40,664
Present value of cash inflows			19,01,636			26,40,664	
(-) Initial Cash outflow			(15,00,000)			(20,00,000)	
NPV			**4,01,636**			**6,40,664**	
PI = $\frac{\text{PV of cash inflow}}{\text{Initial cash outflow}}$			$=\frac{₹\ 19,01,636}{₹\ 15,00,000} = 1.267$			$=\frac{₹\ 26,40,664}{₹\ 20,00,000} = 1.320$	

Discounted Payback Period

Machine I	**Machine II**
$= 3 \text{ years} + \left(\frac{15,00,000 - 12,67,056}{3,35,490}\right)$	$= 3 \text{ years} + \left(\frac{20,00,000 - 17,59,466}{4,65,870}\right)$
= 3 years + 0.69 years = 3.69 years	= 3 years + 0.51 years = 3.51 years

Ans. to Q.7 (A)

Cash Budget for April to September

Particulars	**April(₹)**	**May (₹)**	**June(₹)**	**July(₹)**	**Aug.(₹)**	**Sept.(₹)**
A. Total Cash Available :						
Opening Cash Balance	10,000	12,000	14,900	14,000	12,000	15,000
Cash Sales	8,000	12,000	16,000	20,000	24,000	28,000
Collection from Debtors	16,000	32,000	48,000	64,000	80,000	96,000
	34,000	**56,000**	**78,900**	**98,000**	**1,16,000**	**1,29,000**
B. Total Cash Payments :						
Cash Purchases	8,000	12,000	16,000	20,000	24,000	28,000
Payment to Creditors	12,000	24,000	36,000	48,000	60,000	72,000
Payment of Expenses	12,000	5,000	7,800	2,950	27,000	20,000
	32,000	**41,000**	**59,800**	**70,950**	**1,11,000**	**1,20,000**
C. Surplus (Deficit) A – B)	2,000	15,000	19,100	27,050	5,000	19,000
Financing and Investment :						
D.Borrowings	10,000	---	---	---	---	---
E.Sales of Securities	---	---	---	---	10,000	---
F.(-)Repayment of Borrowings	---	---	(5,000)	(5,000)	---	---

G.(-)Interest on Borrowings	---	(100)	(100)	(50)	---	---
H.(-)Purchase of Securities	---	---	---	(10,000)	---	---
I.Closing Cash Balance [C + D + E – F – G – H]	12,000	14,900	14,000	12,000	15,000	19,000

Ans. to Q.7 (B)

$$\textbf{13. Price - Earning Ratio} = \frac{\textbf{Market Price per share}}{\textbf{EPS}}$$

The objective of this ratio is to find out the expectations of the shareholders about the earnings of the company as compared to the market price of the share.

This ratio indicates the payback period within which the investment in the shares can be recovered by way of EPS. High level of P/E ratio is very favourable to the existing shareholders as it indicates the fact that the company is growing and has good earnings prospects.

Ans. to Q.8 (1)

1. Traditional financing management concentrated on receipts and payment aspects only. However, modern financial management has come a long way and it is has expanded to the other specialized activities such as currency management, cash budget, capital formation, etc.

2. Indian economy is opening up and global resources are being tapped. Hence, there are ample opportunities for finance managers in India. The finance managers are responsible and capable of changing the fortunes of the enterprise.

3. Due to the changes in global environment, the finance manager needs to have a broader and Far-sighted outlook and he must realize that his actions would have far- reaching consequences.

4. Some of the steps taken by Financial managers has an impact on external financial conditions which needs to be emphasized conditions which needs to be emphasized,

a) Raising finance through foreign sources

b) Raising funds through IPOs and seasoned equity offerings

c) Shares buyback.

Ans. to Q.8 (2)

1. Angel investors invest in early stage or start-up companies in exchange of low rate of return. This type of financing has been increasing now-a- days and high profile success stories like Uber, Whatsapp and Facebook are prominent example in this context.

2. Angel investors look for the business ideas which are exciting and have the potential of high growth and profit earning capacity. Angels want to back the business ideas they believe in.

3. Where to find Angel investors?

- **a)** U.K. business Angel Association.
- **b)** Angel News.
- **c)** Angel co. Fund
- **d)** Angel Investment Network.
- **e)** Braveheart Investment Group.
- **f)** Angels Den.

4. Angel Financing is very risky proposition because there is high risk of sacrificing huge amount of money .It is to be noted that less than 10% of new projects are found to be successful. This aspect cannot be ignored.

Ans. to Q.8 (3)

$$\textbf{32. Return on total Assets} = \frac{\textbf{EBIT}}{\textbf{Total Assets}} \times 100$$

The objective of this ratio is to find out how efficiently the total assets have been used by the Management in generating the profits. Hence, higher the ratio, the more efficient will be the management in Utilization of total assets.

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) In the given case moonlight private limited is a multi-product and multi-business structure in which each product and business has its own set of competitors. Therefore the structure of SBU (strategic business unit) will be must favorable to the company.

Strategic business unit (SBU) is a part of large business organization which deals in different product in different markets facing different competitors like Videocon selling refrigerators washing machine TV,ACs etc. in different markets facing competition from other organization like Sony LG kelvinotor,etc

<u>Benefits of SBU structure</u>

(1) Scientific method is created grouping various business which helps in proper structure planning
(2) Proper strategic planning is helpful in framing the priorities for allocating the resources among various SBUs.

Ans. to Q.13 (B)

<u>Leadership style of Mr. Ramesh</u>

Mr. Ramesh is following transactional Leadership and following matters are relevant here:-

(i) Here the leader follows (uses) his authority in setting the organization structure
(ii) Formalised approach is adopted for achievement and penalties for to non-achievement.
(iii) Intension is to grow the business on existing culture and current practices .

Leadership style of Mr. yashpal

Mr yashpal is following transformational leadership and following matters are relevant here:-
(i) Here the leader uses the involvement approach in setting the organization structure.
(ii) Consultation with employees is normal in setting the objectives giving rewards for achievement For and penalties for non-achievements.
(iii) Intention co-ordination and co-operation

Ans. to Q.13 (C)

The company would experience the force of Bargaining power of suppliers becomes the material for production is purchase from a single supplier who is renowned and in a position to create pressure in term of price such material is substitute is not available .

An important factor to noted is that the row material can be used the conclusion that there may be the other suppliers who can provide such material the company should evaluate the purchase option from other supplier. It might affect the operations in the short period but it will help in dealing with the pressure created by existing supplier.

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Ans. to Q.14 (a)

step for building competitive landscape:-

step -1 (Identify the competitor):- first step is to Identify the competitor along with their respective market share.

step -2 (understand the competitors):- after identifying the competitors one should go through the research report newspapers social media internet and various other soures to understand the product are service offered by them in different markets.

step -3 (Determine the strengths of the competitors)
(i) What are haw do the competitor problem so well
(ii) Why are the consumers liking their product/services
(iii) What are their financial position
(iv) What gives them the cost and price advantage
(v) what are they liking to do next
(vi) how strong is their distribution network
(vii) what are their human resource strength

step -4 (Determine the weaknesses of the competitors):-

Financial weaknesses can be ascertained from financial statement and products others weaknesses can be ascertained
From consumer report social media and other sources

step -4 Put all the information for improving own strengths and reducing own weaknesses.

Ans. to Q.14 (b)

In the given cash yummy foods has adopted pro-active approach whereas tasty foods reaction can be permit it is always Recommended to adopt advantage in the mint getting first movers advantage in the mind of the customers.

Despite that the pro-active approach is not a guarantee for success as the competitors cannot be stopped from adopting reacting approach. In the matters relating to patents or copyrights we can stop the competitors through legal methods but that doesn't appear to be the case here.

Coming back to the given case yummy foods has to frame strategy for countering the reactive approach of tasty foods. Strategies have to be framed for giving proper massages to the customers that you are not only the innovator but also the constant and continuous improver in the quality of product and after sale service.

Ans. to Q.15 (a)

(a) **Special Alerts:-** At times, unexpected events may force organizations to reconsider their strategy. Sudden changes in government, natural calamities, terrorist attacks, unexpected merger/acquisition by competitors, industrial disasters and other such events may trigger an immediate and intense review of strategy. To cope up with such eventualities, the organisations form crisis management teams to handle the situation.

(b) **Implementation Control:-** Managers implement strategy by converting major plans into concrete, sequential actions that form incremental steps. Implementation control is directed towards assessing the need for changesin the overall strategy in light of unfolding events and results associated with incremental steps and actions.

Strategic implementation control is not a replacement to operational control. Unlike operational control, it continuously monitors the basic direction of the strategy. The two basic forms of implementation control are:

(i) **Monitoring strategic thrusts**: Monitoring strategic thrusts helps managers to determine whether the overall strategy is progressing as desired or whether there is need for readjustments.

(ii) **Milestone Reviews**: All key activities necessary to implement strategy are segregated in terms of time, events or major resource allocation. It normally involves a complete reassessment of the strategy. It also assesses the need to continue or refocus the direction of an organization.

Ans. to Q.15 (b)

Approaches of Leadership:-

(a) **Transformational leadership:-** Transformational leadership style may be appropriate in turbulent environments, in industries at the very start or end of their life-cycles, in poorly performing organizations when there is a need to inspire a company to embrace major changes. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction.

Such a leadership motivates followers to do more than originally affected to do by stretching their abilities and increasing their self-confidence, and also promote innovation throughout the organization.

(b) **Transitional Leadership:-** Transactional leaders try to build on the existing culture and enhance current practices. They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement.

Ans. to Q.16 (a)

(Network of relationship between the three levels of management)

(1) **Functional and Divisional Relationship:-** Functions may be like purchasing, producing, marketing, finance, etc. In case of car manufacturing company, the divisions may be small car, mid-size and big cars, SUVs, etc. In case of toy manufacturing company, the divisions may be kids toys, teenager toys, etc. Each function is run by functional manager who is answerable to business level and corporate level managers. Each division is run by business level manager who is answerable to corporate level managers.

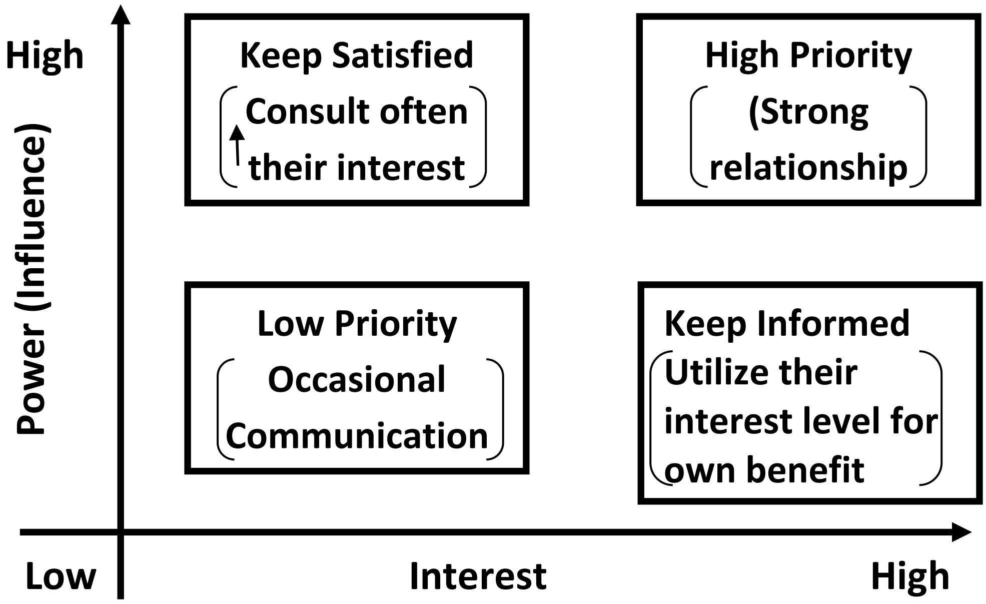
(2) **Horizontal Relationship:-** In this structure, all positions are placed at same hierarchical position. It is a type of flat structure where everyone is considered at some level. This leads to openness and transparency in work culture. This type of relationship is more suitable for startups where the need to share ideas with speed is more desirable.

(3) **Matrix Relationship:-** In matrix organization, the individuals report to the multiple leaders, i.e., the individuals work across teams and projects as well as within their own departments or functions. For example, a team established for new project or product might include engineers and design specialists as well as experts in the field of marketing, finance, personnel and production skills.

Ans. to Q.16 (b)

Concept No.4 (Mendelow's Matrix):-

(**Also known as stakeholder Analysis Matrix or Power-Interest Matrix**)



High Priority stakeholders:-

The key players must be fully engaged, i.e., greatest satisfaction level with maximum consultation. (Examples are shareholders, CEO, Board of Directors, etc.)

Low priority stakeholders:- These players should only be monitored at length, i.e., least satisfaction level and minimum consultation. Examples are business magazines, media house, etc.

Keep Satisfied stakeholders:- These players should be satisfied to the maximum extent. Examples are banks, governments etc.

Keep Inform stakeholders:-These Players should be adequately informed. Examples are vendors, suppliers, legal experts, etc.