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# Scanner Appendix

CA Inter Group- II  
(Solutions of May - 2023 and  
Questions of November - 2023)

Paper - 6 : Financial Management and Strategic Management

Part - I Financial Management

Chapter - 1 : Scope and Objectives of Financial Management

6

*Objectives of Financial Management*

2023 - Nov [6] (Or) (c)

What are disadvantages of Profit Maximization? (2 marks)

Chapter - 2 : Types of Financing

7

*Other Sources of Finance*

2023 - May [6] (Or) (c)

Answer:

- **Secured Premium Notes:** It is issued along with a detachable warrant and is redeemable after a notified period of say 4 to 7 years. The conversion of detachable warrant into equity shares will have to be done within time period notified by the company.

8

*International Financing*

2023 - Nov [6] (a)

Write the main features of Bulldog Bond. (4 marks)

**6****Short Term Sources of Finance****2023 - Nov [6] (b)**

What do you understand by Spontaneous Sources of finance and explain its sources of finance? (4 marks)

**Chapter - 3: Financial Analysis and Planning - Ratio Analysis****2E.****Types of Ratios: Comprehensive****2023 - May [2]****Answer:****Balances Sheet as on 3.3.2023**

<b>Liabilities</b>	<b>₹</b>	<b>Assets</b>	<b>₹</b>
Equity Share Capital (₹ 10 per share)	8,00,000	Fixed Asset	16,66,250
Reserve & Surplus	5,95,000	Inventory	4,65,000
Long-term Debt (b.f.)	12,01,250	Debtors	5,42,500
Current Liabilities	3,10,000	Loans & Advances	99,200
		Cash & Bank	1,33,300
	<b>29,06,250</b>		<b>29,06,250</b>

**Working Notes:**

$$1. \text{ Current Ratio} = \frac{\text{CA}}{\text{CL}} = 4 \text{ times}$$

$$\text{Current Assets} = 4 \times 3,10,000 = ₹ 12,40,000$$

$$2. \text{ Acid Test Ratio} = \frac{\text{CA} - \text{Stock}}{\text{CL}}$$

$$= \frac{12,40,000 - \text{Stock}}{3,10,000}$$

$$= 2.5 \text{ times}$$

$$\text{Inventory} = ₹ 4,65,000$$

$$3. \text{ Cash Ratio} = \frac{\text{Cash and Bank}}{\text{CL}}$$

$$= \frac{\text{Cash and Bank}}{3,10,000} = 0.43$$

$$\text{Cash \& Bank} = 1,33,300$$

4. Inventory HO =  $\frac{\text{Sales}}{\text{Inventory}} = \frac{\text{Sales}}{4,65,000} = 6$   
     Sales = ₹ 27,90,000
5. Debtors = Credit Sales × 70/360  
     = 27,90,000 × 70/360  
     = ₹ 5,42,500
6. Loans & Adv. = CA – Drs. – Inventory – C & B  
     = 12,40,000 – 5,42,500 – 4,65,000 – 1,33,300  
     = ₹ 99,200
7. Total Asset +10 =  $\frac{\text{Sales}}{\text{Total Assets}}$   
     =  $\frac{27,90,000}{\text{Total Assets}}$   
     = 0.96  
     Total Assets = ₹ 29,06,250
8. Fixed Assets = Total Assets – Current Assets  
     = 29,06,250 – 12,40,000  
     = 16,66,250
9. Proprietor Ratio =  $\frac{\text{Prop. Fund}}{\text{Total Assets}}$   
     =  $\frac{\text{Prop. Fund}}{29,06,250}$   
     = 0.48  
     Proprietor's Fund = 0.48 × 29,06,250  
     = ₹ 13,95,000
10. Equity Div. Coverage =  $\frac{\text{EAT}}{\text{Equity Division}}$   
     1.6 =  $\frac{\text{EAT}}{1,75,000}$   
     EAT = 1.6 × 1,75,000  
     = ₹ 2,80,000
11. No. of Shares =  $\frac{\text{EAT}}{\text{EPS}} = \frac{2,80,000}{3.5}$   
     = 80,000
12. Equity Share Capital = 80,000 × ₹ 10 = ₹ 8,00,000  
     Reserve and Surplus = 13,95,000 – 8,00,000  
     = ₹ 5,95,000

**2E.****Types of Ratios: Comprehensive****2023 - Nov [1] {C} (a)**

You are available with following information of Brave Ltd.:

Debtor's velocity	3 months
Stock velocity	6 months
Creditor's velocity	2 months
Gross profit ratio	20%

The gross profit for the year ended 31<sup>st</sup> March, 2023 was ₹ 10,00,000.

Stock for the same period was ₹ 40,000 more than what it was at the beginning of the year. Bills receivable were ₹ 1,20,000.

From the above information, you are required to calculate:

- (i) Sales
- (ii) Sundry debtors
- (iii) Closing stock

(5 marks)

**Chapter - 4 : Cost of Capital****8****Weighted Average Cost of Capital (WACC)****2023 - May [4]****Answer:****(a) Calculation of existing weighted average cost of capital by taking book value weight:**

Particulars	Book Value	Weight (W)	Cost (K)	Weight Cost
Equity shares	₹ 30,00,000	0.60	0.2500	0.1500
Pref. shares	₹ 10,00,000	0.20	0.0800	0.0160
Debentures	₹ 10,00,000	0.20	0.0902	0.0180
Total	₹ 50,00,000	100	WACC	0.1840

Existing WACC = 0.1840 or 18.40%

**(b) Calculation of weighted average cost of capital after expansion by taking book value weight:**

Particulars	Book Value	Weight (W)	Cost (K)	Weight Cost
Equity shares	₹ 30,00,000	0.375	0.3000	0.1125
Pref. shares	₹ 10,00,000	0.125	0.0800	0.0100

Debentures	₹ 10,00,000	0.125	0.0902	0.0113
L/T Loan	₹ 30,00,000	0.375	0.9000	0.0338
	₹ 80,00,000	1	WACC	0.1676

Revised WACC = 0.1676 or 16.76%

**Working Notes:**

$$K_e = \frac{D_1}{P_0} + g = \frac{16}{80} + 5\% = 25\%$$

$$g = \sqrt[7]{14.07} - 1 = 5\%$$

$$K_p = \frac{PD + \left(\frac{RV - NP}{N}\right)}{\frac{RV + NP}{2}} \times 100 = \frac{8 + \left(\frac{106 - 104}{5}\right)}{\frac{106 + 104}{2}} \times 100 = 8\%$$

$$K_d = \frac{1(1 - t) + \left(\frac{RV - NP}{N}\right)}{\frac{RV + NP}{2}} \times 100 = \frac{12(1 - 0.40) + \left(\frac{120 - 95}{10}\right)}{\frac{120 + 95}{2}} = 9.02\%$$

$$K_e = (\text{Revised}) = \frac{D_1}{P_0} + g = \frac{18}{72} + 5\% = 30\%$$

$$K_n = 1(1 - t) = 15\% (1 - 0.4) = 9\%$$

**2023 - Nov [4]**

Z Ltd. wishes to raise additional fund of ₹ 25,00,000 for meeting its investment plan. It has ₹ 5,25,000 in the form of retained earnings available for investment purposes. Further details are as following:

Combination of debt and equity 2:3

Cost of debt

Upto ₹ 2,50,000	8% (before tax)
Above ₹ 2,50,000 and to upto ₹ 5,00,000	10% (before tax)
Beyond ₹ 5,00,000	12% (after tax)
Earning of company	₹ 50,00,000
Retention Ratio	40%

Expected growth of dividend	15%
Market price per share	₹ 500
Number of outstanding equity shares	1,00,000
Tax Rate	30%
You are required to calculate:	
i. Cost of debt	
ii. Cost of retained earnings and cost of equity	
iii. Weighted average cost of capital	(10 marks)

### Chapter - 5 : Financing Decisions - Capital Structure

3

### Factors Determining Capital Structure

2023 - May [3]

Answer:

#### Statement of Market Value Per Share (MPS)

Particulars	Equity Plan	Debt Plan
EBIT (9,60,000 + 6,15,000)	15,75,000	15,75,000
(-) Int. Existing	(1,20,000)	(1,20,000)
New (16% of ₹ 34,50,000)	—	(5,52,000)
EBT	14,55,000	9,03,000
(-) Tax @ 30%	(4,36,500)	(2,70,900)
PAT	10,18,500	6,32,100
(-) Pref. dividend (9% × ₹ 12,00,000)	(1,08,000)	(1,08,000)
Earnings for equity shareholder	9,10,500	5,24,100
÷ No. of equity shares (New + Existing)	1,03,000	80,000
EPS	₹ 8.84	₹ 6.55
× PE Ratio	25 times	18 times
MPS	₹ 221	₹ 177.90

**Advise:** Company should raise additional capital through equity plan to maximum MPS.

**Working Notes:****1. Debt equity ratio if ₹ 34,50,000 is raised as equity:**

$$= \frac{10,00,000}{74,50,000(8,00,000 + 34,50,000 + 20,00,000 + 12,00,000)} \times 100 = 13.42\%$$

As debt ratio is less than 50% the P/E ratio will remain at 25 times in plan 1.

**2. Debt equity ratio if ₹ 34,50,000 is raised as debt:**

$$\frac{10,00,000 + 34,50,000}{40,00,000(8,00,000 + 20,00,000 + 12,00,000)} \times 100 = 111.25\%$$

As the debt ratio is more than 80% the P/E ratio will be brought down to 18 in plan 2.

**3. Existing EBIT:**

$$\text{Int. Cov. Ratio} = \frac{\text{EBIT}}{\text{Int.}} = \frac{\text{EBIT}}{1,20,000} = 8$$

$$\text{EBIT} = 9,60,000$$

$$\begin{aligned} 4. \text{ Existing EPS} &= \frac{(\text{EBIT} - 1)(1 - t) - \text{PD}}{N} \\ &= \frac{(9,60,000 - 1,20,000)(1 - 0.3) - 1,08,000}{80,000} \\ &= ₹ 6 \end{aligned}$$

**5. Present MPS:**

$$\text{EPS} \times \text{P/E ratio} = ₹ 6 \times 25 = ₹ 1.50$$

**6. No. of equity share issued in plan 1:**

$$\begin{aligned} &= \frac{34,50,000}{150} \\ &= 23,000 \text{ shares} \end{aligned}$$

**3****Factors Determining Capital Structure****2023 - Nov [2]**

The data of K Textiles Ltd. are given as follows:

Particulars	Amount (₹)
Profit Before Interest and Tax	50,00,000
Less: Interest on debentures @ 10%	10,00,000
Profit before tax	40,00,000
Less: Income tax @ 50%	20,00,000

Profit after tax	<u>20,00,000</u>
No. of equity shares (₹ 10 each)	10,00,000
EPS	2
PE Ratio	10
Market price per share	20

The Company is planning to start a new project needs to be having a total capital outlay of ₹ 40,00,000. You are informed that a debt equity ratio  $\left[ \frac{D}{D+E} \right]$  higher than 36% pushes the Ke (cost of equity) up to 12.5%, means reducing the PE ratio to 8 and rises the interest rate on additional amount borrowed to 12%. Retained earnings of the company is ₹ 1.4 crores. Find out the probable price of share if:

- The additional funds are raised as a loan
- The amount is raised by issuing equity shares. (10 marks)

**6****Over Capitalisation and Under Capitalisation****2023 - Nov [6] (c)**

What are the causes of over-capitalization?

(2 marks)

**Chapter - 6 : Financing Decisions - Leverages****2****Meaning and Types of Leverages: Operating, Financial and Combined Leverage****2023 - May [1] {C} (d)****Answer:**

- (i) Operating Leverage (OL) =  $\frac{\text{Contribution}}{\text{EBIT}}$  or, 3.125 =  $\frac{₹ 4,25,000}{₹ 1,36,000}$  or EBIT
- (ii) Degree of Combined Leverage (CL) =  $\frac{\% \text{ Changes in EPS}}{\% \text{ Changes in Sales}} = \frac{100}{40} = 2.5$
- (iii) Combined Leverage = OL × FL = 3.125 × FL  
So, Financial Leverage = 2.5/3.125 = 0.8
- (iv) Financial Leverage =  $\frac{\text{EBIT}}{\text{EBT}} = \frac{1,36,000}{\text{EBT}} = 0.8$



$$\text{So, EBT} = \frac{1,36,000}{0.80} = ₹ 1,70,000$$

**Calculation of EPS o X Ltd.**

Particulars	(₹)
EBT	170000
Less: Tax (50%)	85000
EAT	85000
Preference Dividend	15000
Net Earnings for Equity Shareholders	70000
Number of equity shares	2500
EPS	28

**2****Meaning and Types of Leverages: Operating, Financial and Combined Leverage****2023 - May [6] (c)****Answer:**

Financial leverage indicates the use of funds with fixed cost like long term debts & preference share capital along with equity shares capital which is known as trading on equity. A firm is known to have a positive leverage when its earnings are more than cost of debt. When the quantity of fixed cost fund is relatively high in comparison to equity capital it is said that the firm is "Trading on Equity".

**2****Meaning and Types of Leverages: Operating, Financial and Combined Leverage****2023 - Nov [1] {C} (b)**

The following details of Shiva Ltd. for the year ended 31<sup>st</sup> March, 2023 are given below:

Operating Leverage	1.4
Combined Leverage	2.8
Fixed Cost (Excluding Interest)	₹ 2.04 lakhs
Sales	₹ 30 lakhs

12% Debentures of ₹ 10 each	₹ 21.25 lakhs
Equity Share Capital of ₹ 10 each	₹ 17.00 lakhs
Income Tax Rate	30%
Required:	
(i) Calculate P/V ratio and Earning Per Share (EPS)	
(ii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets turnover?	
(iii) Financial Leverage	(5 marks)

## Chapter - 7 : Investment Decisions

7A

**Capital Budgeting Techniques: Discounting  
Technique: New Present Value Technique**

2023 - May [1] {C} (c)

Answer:

(a) Statement showing NPV in each scenario:

	Worst Case	Most Likely	Best Case
Contribution	3,30,000	5,40,000	6,31,250
(-) Fixed cost (excluding dep <sup>n</sup> )	(75,000)	(1,50,000)	(2,00,000)
(-) Dep <sup>n</sup> (4,50,000 – 50,000)/5 years	(80,000)	(80,000)	(80,000)
PBT	1,75,000	3,10,000	3,51,250
(-) Tax @ 40%	(70,000)	(1,24,000)	(1,40,500)
PAT	1,05,000	1,86,000	2,10,750
(+) Dep <sup>n</sup>	80,000	80,000	80,000
CFAT	1,85,000	2,66,000	2,90,750
PV of CFAT (CFAT × PVIFA <sub>0.125</sub> i.e. 3.605)	6,66,925	9,58,930	10,48,154
PV of Salvage (Salvage × PVIF <sub>0.125</sub> i.e. 0.567)	28,350	28,350	28,350
(-) PV of outflow	(4,50,000)	(4,50,000)	(4,50,000)
<b>NPV</b>	<b>2,45,275</b>	<b>5,37,280</b>	<b>6,26,504</b>

(b) NPV with most likely in first two years, worst case in next 2 years &amp; best case in last year:

$$\begin{aligned} \text{NPV} &= [(2,66,000 \times 1.690) + (1,85,000 \times 1.348) + (2,90,750 \times 0.567) + \\ & (50,000 \times 0.567)] - 4,50,000 \\ &= ₹ 4,42,125 \end{aligned}$$

**7A**

**Capital Budgeting Techniques: Discounting  
Technique: New Present Value Technique**

2023 - May [5]

Answer:

Working Notes:

(i) Calculation of Net Initial Cash Outflow

Particulars	₹
Cost of New Machine	12,00,000
Less: Sale proceeds of existing machine	2,00,000
Net Purchase Price	10,00,000
Paid in year 0	8,00,000
Paid in year 1	2,00,000

(ii) Calculation of Additional Depreciation

Year	1	2	3	4
	₹	₹	₹	₹
Opening WDV of machine	10,00,000	8,00,000	6,40,000	5,12,000
Depreciation on new machine @ 20%	2,00,000	1,60,000	1,28,000	1,02,400
Closing WDV	8,00,000	6,40,000	5,12,000	4,09,000
Depreciation on old machine (4,80,000/8)	60,000	60,000	60,000	60,000
<b>Incremental depreciation</b>	<b>1,40,000</b>	<b>1,00,000</b>	<b>68,000</b>	<b>42,400</b>

(iii) Calculation of Annual Profit before Depreciation and Tax (PBDT)

Particulars	Incremental Value (₹)
Sales	12,25,000
Contribution	6,12,500

Less: Indirect Cost	1,18,750
Profit before Depreciation and Tax (PBDT)	4,93,750

**Calculation of Incremental NPV**

Year	PVF @12 %	PBDT (₹)	Incremental Depreciation (₹)	PBT (₹)	Tax @ 30% (₹)	Cash Inflows (₹)	PV of Cash Inflows (₹)
	(1)	(2)	(3)	(4)	(5) = (4) × 0.30	(6) = (4) - (5) + (3)	(7) = (6) × (1)
1	0.893	4,93,750	1,40,000	3,53,750	1,06,125	3,87,625	3,46,149.125
2	0.797	4,93,750	1,00,000	3,93,750	1,18,125	3,75,625	2,99,373.125
3	0.712	4,93,750	38,000	4,25,750	1,27,725	3,66,025	2,60,609.800
4	0.636	4,93,750	42,400	4,51,350	1,35,405	3,58,345	2,27,907.420
*							<b>11,34,039.470</b>
Add: PV of Salvage (₹ 1,00,000 × 0.636)							63,600
Less: Initial Cash Outflow - Year 0							<b>8,00,000</b>
Year 1 (₹ 2,00,000 × 0.893)							<b>1,78,600</b>
Less: Working Capital - Year 0							2,50,000
Year 2 (₹ 3,00,000 × 0.797)							2,39,100
Add: Working Capital released - Year 4 (₹ 5,50,000 × 0.636)							3,49,800
<b>Incremental Net Present Value</b>							<b>79,739.470</b>

Since the incremental NPV is positive, existing machine should be replaced.

**Alternative Presentation****Computation of Outflow for new Machine:**

	₹
Cost of new machine	12,00,000
Replaced cost of old machine	2,40,000
Cost of removal	40,000
<b>Net Purchase price</b>	<b>10,00,000</b>
Outflow at year 0	8,00,000
Outflow at year 1	2,00,000

**Computation of additional depreciation:**

Year	1	2	3	4
	₹	₹	₹	₹
Opening WDV of machine	10,00,000	8,00,000	6,40,000	5,12,000
Depreciation on new machine @ 20%	2,00,000	1,60,000	1,28,000	1,02,400
Closing WDV	8,00,000	6,40,000	5,12,000	4,09,600
Depreciation on old machine (4,80,000/8)	60,000	60,000	60,000	60,000
<b>Incremental depreciation</b>	<b>1,40,000</b>	<b>1,00,000</b>	<b>68,000</b>	<b>42,400</b>

#### Computation of NPV

	Year	0	1	2	3	4
		₹	₹	₹	₹	₹
1.	Increase in sales revenue		12,25,000	12,25,000	12,25,000	12,25,000
2.	Contribution		6,12,500	6,12,500	6,12,500	6,12,500
3.	Increase in fixed cost		1,18,750	1,18,750	1,18,750	1,18,750
4.	Incremental Depreciation		1,40,000	1,00,000	68,000	42,400
5.	Net profit before tax [1-(2+3+4)]		3,53,750	3,93,750	4,25,750	4,51,350
6.	Net Profit after tax (5 × 70%)		2,47,625	2,75,625	2,98,025	3,15,945
7.	Add: Incremental depreciation		1,40,000	1,00,000	68,000	42,400
8.	Net Annual cash inflows (6+7)		3,87,625	3,75,625	3,66,025	3,58,345
9.	Release of					1,00,000

10.	salvage value (investment)/disinvestment in working capital	(2,50,000)		(3,00,000)		5,50,000
11.	Initial cost	(8,00,000)	(2,00,000)			
12.	Total net cash flows	(10,50,000)	1,87,625.00. 893	75,625	3,66,025	10,08,345
13.	Discounting Factors	1	0.893	0.797	0.712	0.636
14.	Discounted cash flows (12 × 13)	(10,50,000)	1,67,549.125	60,273.125	2,60,609.800	641307.420

**NPV = (1,67,579 + 60,273 + 2,60,610 + 6,41,307) - 10,50,000 = ₹ 79,739**  
 Since the NPV is positive, existing machine should be replaced.

## 9

**Comprehensive Questions****2023 - Nov [3]**

ABC Ltd. is considering to purchase a machine which is priced at ₹ 5,00,000. The estimated life of machine is 5 years and has an expected salvage value of ₹ 45,000 at the end of 5 years. It is expected to generate revenues of ₹ 1,50,000 per annum for five years. The annual operating cost of the machine is ₹ 28,125, Corporate Tax Rate is 20% and the cost of capital is 10%. You are required to analyse whether it would be profitable for the company to purchase the machine by using:

- (i) Payback Period Method
  - (ii) Net Present Value Method
  - (iii) Profitability Index Method
- (10 marks)

**Chapter - 8 : Dividend Decisions**

## 8

**Theories of Dividend: Walter Model**

**2023 - May [1] {C} (a)**

**Answer:**

$$(a) \text{ MP of Share} = \frac{D + (E - D) \times \frac{r}{k_e}}{k_e}$$

$$130 = \frac{D + (10 - D) \times \frac{0.12}{0.08}}{0.08}$$

$$10.40 = D + (10 - D) \times \frac{0.12}{0.08}$$

$$10.40 = D + 15 - 1.5D$$

$$0.5D = 4.6$$

$$D = ₹ 9.20$$

$$\text{Dividend Payment (Payout)} = \frac{9.20}{10} \times 100 = 92\%$$

$$\text{WN: } K_e = 1/PE = 1/12.5 = 8\%$$

(b)  $r > K_e$ , therefore as per walter model optimum dividend payout is Nil

$$\text{MP} = \frac{D + (E - D) \times \frac{r}{k_e}}{k_e} = \frac{0 + (10 - 0) \times \frac{0.12}{0.08}}{0.08} = ₹ 187.5$$

(c) The P/E ratio at which the dividend policy will have no effect on the value of the share is such at which the  $k_e$  would be equal to rate of return ( $r$ ) of the firm.

$$K_e = r = 12\%$$

$$PE = 1/k_e = 1/12\% = 8.33 \text{ times}$$

(d) MP of share = EPS  $\times$  PE = 10  $\times$  8.33 = ₹ 83.33(e) **MP of Share using Dividend Growth Model:**

$$P = \frac{D_1}{K_e - g} = \frac{9.20}{0.08 - 0.0096} = ₹ 130.68$$

$$\text{WN: } G = b \times r = 12\% \times 0.08 = 0.96\%$$

**Answer:**

To issue Bonus shares, a Company needs to fulfill all the conditions given by Securities Exchange Board of India (SEBI):

- (i) As per SEBI, the bonus shares are issued not in lieu of cash dividends.
- (ii) A bonus issue should be authorized by Article of Association (AOA) and not to be declared unless all partly paid-up shares have been converted into fully paid-up shares.
- (iii) The Company should not have defaulted on re-payment of loan, interest, and any statutory dues.
- (iv) Bonus shares are to be issued only from share premium and free reserves and not from capital reserve on account of fixed assets revaluation.

**6*****Practical Considerations in Dividend Policy*****2023 - Nov [1] {C} (c) (i)**

EPS of a company is ₹ 60 and Dividend payout ratio is 60%. Multiplier is 5. Determine price per share as per Graham & Dodd model. (2 marks)

**2023 - Nov [1] {C} (c) (ii)**

Last year's dividend is ₹ 6.34, adjustment factor is 45%, target payout ratio is 60% and current year's EPS is ₹ 12. Compute current's year's dividend using Linter's model. (3 marks)

**9*****Theories of Dividend: Gordon's Model*****2023 - Nov [5] (b)**

INFO Ltd. is a listed company having share capital of ₹ 2,400 Crores of ₹ 5 each.

During the year 2022-23

Dividend distributed	1000%
Expected Annual growth rate in dividend	14%



Expected rate of return on its equity capital	18%
Required	
(a) Calculate price of share applying Gordon's growth Model.	
(b) What will be the price of share if the Annual growth rate in dividend is only 10%?	
(c) According to Gordon's growth Model, if Internal Rate of Return is 25%, than what should be the optimum dividend payout ratio in case of growing stage of company ? Comment. (5 marks)	

### Chapter - 9D : Management of Working Capital- Management of Receivables

5

### *Approaches to Evaluation of Credit Polices*

2023 - May [1] {C} (b)

Answer:

#### Statement of Evaluation

Particulars	Present	Proposal
Sales Value	12,00,000	15,00,000
(-) Variable cost @ 80%	(9,60,000)	(12,00,000)
Contribution @ 20%	2,40,000	3,00,000
(-) Bad debts @ 2% of sales	(24,000)	(30,000)
(-) Cash discount (WN)	(6,000)	(24,000)
Expected PBT	2,10,000	2,46,000
(-) Tax @ 30%	(63,000)	(73,800)
Expected PAT	1,47,000	1,72,200
(-) Cost of Investment (WN)	(16,000)	(15,000)
Net PAT	1,31,000	1,57,200

**Advise:** Company should change its credit terms having higher net benefit after tax.

**WN:****1. Calculation of Cost of Investment:**

$$\text{Existing} = 9,60,000 \times 15\% \times \frac{40}{360} = 16,000$$

$$\text{Proposed} = 12,00,000 \times 15\% \times \frac{30}{360} = 15,000$$

**2. Calculation of Cost of Discount:**

$$\text{Existing} = 12,00,000 \times 50\% \times 1\% = 6,000$$

$$\text{Proposed} = 15,00,000 \times 80\% \times 2\% = 24,000$$

**Chapter - 9A: Management of Working Capital-Introduction to Working Capital Management****1*****Meaning and Concept of Working Capital*****2023 - May [6] (b)****Answer:**

- Permanent working capital refers to the base working capital, which is the minimum level of investment in the current assets that is carried by the entity at all times to carry its day to day activities. It generally stays invested in the business, unless the operations are scaled up or down permanently which would also result in increase or decrease in permanent working capital.
- Temporary working capital refers to that part of working capital, which is required by an entity in addition to the permanent working capital. It is also called variable or fluctuating working capital which is used to finance the short-term working capital requirements which arises due to fluctuation in sales volume.

**6*****Operating or Working Capital Cycle*****2023 - Nov [1] {C} (d)**

X Ltd. has furnished following cost sheet of per unit cost;

Raw material cost	-	₹ 150
Direct labour cost	-	₹ 40
Overhead cost	-	₹ 60
Total Cost	-	₹ 250
Profit	-	₹ 50
Selling Price	-	₹ 300

The company keeps raw material in stock on an average for 2 months; work in progress on an average for 3 months and finished goods in stock on an average 1 month. The credit allowed by suppliers is 1.5 months and company allows 2 months credit to its debtors. The lag in payment of wages is 1 month and lag in payment of overhead expenses is 1.5 months. The company sells 25% of the output against cash and maintain cash in hand at bank put together at ₹ 1,50,000. Production is carried on evenly throughout the year and wages and overheads also similarly. Work in progress stock is 75% complete in all respects. Prepare statement showing estimate of working capital requirements to finance an activity level of 15,000 units of production. (5 marks)

## Part - II Strategic Management

### Chapter - 1 :Introduction to Strategic Management

**5**

### *Strategic Levels in Organisation*

**2023 - Nov [6] {C}**

Swagatam was a chain of hotels. The business was good until the whole nation was impacted by COVID -19 pandemic in early 2022.

The management soon understood that pandemic had seriously disrupted the hotel sector and average revenue-per-available room fell by nearly 90% and they expected this decline to continue due to travel bans and fear seen in the society.

Pandemic required 14-day compulsory quarantine for the affected individuals and hospitals were short of rooms.

Management found a small opportunity as they had sufficient rooms, staff and could follow required health and safety standards. They decided to do service transformation by letting some of their units to hospitals to be transformed into covid - care units & rest of the units were rented to individuals as a quarantine facility.

- (a) Name the strategic level of management at which such decisions are made. (1 mark)
- (b) The above scenario depicts one of the limitations of strategic management. Discuss which limitation of strategic management is depicted here. (2 marks)
- (c) Here the decision taken by the management was reactive. Discuss the benefit of proactive approach over reactive approach. (2 marks)

**5*****Strategic Levels in Organisation***

**2023 - Nov [10] (Or) (b)**

CDE Holdings operates in various sectors, including manufacturing fitness equipment, organic foods, eco-friendly products and children's educational tools. The organization is currently in the process of recruiting a Chief Executive Officer. In this scenario imagine yourself as a HR consultant for CDE Holdings.

Identify the strategic level that encompasses this role within CDE Holdings. (1 mark)

Provide an overview of the key duties and responsibilities falling under the Chief Executive Officer's scope. (4 marks)

**Chapter - 2 :Strategic Analysis: External Environment****4*****Industry Environment Analysis***

**2023 - May [8] (b)**

**Answer:**

Buyers of an industry's products or services can exert considerable pressure on existing firms to secure lower prices or better services.

**This leverage is particularly evident when:**

- Buyers have full knowledge of the sources of product.
- They spend a lot of money on the industry's product.
- The industry's product is not perceived as critical to buyer's need.
- Buyers are more concentrated than firms supplying the product.

They can easily switch to the substitutes available.

**4****Industry Environment Analysis****2023 - Nov [7] (a)**

Explain briefly the competitive forces in any industry as identified by Michael Porter. (5 marks)

**6****Competitive Strategy****2023 - Nov [10] (a)**

Mr. LMN has established a successful venture in the textiles sector in Maharashtra. His enterprise specializes in crafting unique and high-quality home furnishings, which have garnered significant market presence. However, there was a sales dip in the previous year. Seeking professional advice, Mr. LMN consulted a strategic management expert who suggested his first course of action should be to grasp the dynamics of the competitive landscape.

In order to comprehend the competitive landscape, what steps should Mr. LMN follow? (5 marks)

**Chapter - 4 :Strategic Choices****1****Strategies Choice****2023 - May [8] (a)****Answer:**

- (i) If HPPL and HLP join hands and make new entity named Health N Hygiene Pharma Ltd, then this type of strategies deal will be called a Merger.
- (ii) In case, HLP is sold out to HPPL & HLP ceased to exist, then this type of strategies deal will be called on Acquisition .
- (iii) **Differences between Mergers & Acquisitions are:**
- Merger:**
- Merger is when two or More organizations join together to expand their business operations.
  - In this usually a new entity is formed.
- Acquisition:**
- Acquisition is when one organization takes over other organization and controls all its business operations
  - In this one organization that is taken over ceases to exist.

**1****Strategies Choice****2023 - Nov [8] (b)**

Care Ltd. has decided to acquire Trust Ltd. Discuss the major dimensions of strategic decisions. (5 marks)

**2023 - Nov [9] (b)**

Which strategy is implemented by redefining the business, by enlarging its scope of business and substantially increasing investment in the business? Explain the major reasons for adopting this strategy. (1+ 4 = 5 marks)

**2023 - Nov [10] (b)**

Explain the Strategic Alliance. Describe the advantages of Strategic Alliance. (5 marks)

**Chapter - 5 :Strategy Implementation And Evaluation****4****Strategic Leadership****2023 - May [6] {C}****Answer:**

- (a) Leadership style employed by Ramesh is Transactional where as Suresh follows Transformational leadership style.
- (b) **Transactional leadership style** may be appropriate in static environmental in mature industries, and in organizations that are performing well.  
**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 where there is a need to inspire a company to embrace major changes.
- (c) Transactional leader believes in using the authority of its office to exchange rewards, such as pay and status . They prefer a more formalized approach to motivation, setting clear goals with explicit rewards or penalties for achievements and non- achievement.
- Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction . They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling so as to elicit more dramatic changes in organizational performances.

**2*****Strategic Changes Through Digital Transformation*****2023 - May [10] (a)****Answer:**

The changes in environmental forces often require businesses to make modifications in their existing business and bring out new strategies.

- It is a complex process of modifying existing strategies or implementing new strategic due to changes in external environment.
- It is focused on areas like: new markets, products, services and new ways of choosing business.

**Following steps are taken in initiate strategic change:**

- (I) **Recognize the need for change:** The first step is to diagnose which facets of the present corporate culture are strategy supportive and which are not.
- (ii) **Create a shared vision to manage change:** Objectives of both individuals and organization should coincide. There should be no conflict between them. They have to convince all those concerned that

the change in business culture is not superficial or cosmetic.

- (iii) **Institutionalize the change:** This is basically an action stage which requires implementation of changed strategy. Creating and sustaining a different attitude towards change is essential to ensure that the firm does not slip back into old ways of thinking things.

**4****Strategic Leadership**

2023 - May [10] (Or) (b)

**Answer:**

**The leadership roles, I will have to play as a Manager in pushing for good strategy execution are:**

- (i) Staying on top of what is happening, closely monitoring progress, solving out issues, and learning what obstacles lie in the path of good execution.
- (ii) Promoting a culture of esprit de corps that mobilizes and energizes organizational members to execute strategy in a component fashion and perform at a high level.
- (iii) Keeping the organization responsive to changing conditions, alert for new opportunities bubbling with innovative ideas developing competitively valuable competencies & capabilities.
- (iv) Exercising ethical leadership and insisting that the company conduct its affairs like a model corporate citizen.
- (v) Pushing corrective actions to improve strategy execution and overall strategic performance.

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