

Mock Test Paper - Series II: December, 2025

Date of Paper: 17th December, 2025

Time of Paper: 10 A.M. to 1 P.M.

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.

Case Scenario - I

Virat Ltd., a steadily growing company in Mumbai, has been performing well in its current line of business. The management believes the timing is right to expand, and they have approached you—the company's financial analyst—to evaluate whether their planned new venture is financially sound.

At present, the company earns ₹ 20,00,000 in annual revenue. To generate this income, Virat Ltd. incurs several operating costs. About 40% of the revenue, or ₹ 8,00,000, goes toward the cost of goods sold. Additionally, the company spends ₹ 2,00,000 on employee salaries, ₹ 50,000 on electricity and other overheads, and another ₹ 50,000 on advertising and promotional activities. After all these expenses, the company pays 35% tax on its profits.

To run the existing business, Virat Ltd. uses a total capital of ₹ 1.5 crore. This capital is funded partly through equity of ₹ 80,00,000, represented by 8,00,000 shares with a face value of ₹ 10 each, and partly through debt of ₹ 70,00,000, on which the company pays 9.95% interest per year.

Since the company is listed on the NSE, its performance is compared with the market index, which has produced a return of 14.95%. The company carries a beta of 1.10, indicating slightly higher risk than the market. For risk-free benchmarks, the latest RBI T-Bill rate is 5.45%.

Virat Ltd. is evaluating expansion into a new product line. Management has already conducted preliminary research and provided expected revenue and cost estimates for the next five years.

Expected Performance of the New Project

Year	2026	2027	2028	2029	2030
Revenue	9,50,000	10,45,000	11,49,500	12,64,450	13,90,895
COGS %	40%	42%	45%	47%	50%
COGS (₹)	3,80,000	4,38,900	5,17,275	5,94,291.5	6,95,447.5
Gross Profit	5,70,000	6,06,100	6,32,225	6,70,158.5	6,95,447.5
Employee Costs	45,000	47,250	49,612.5	52,093.13	54,697.78
Electricity/Other	5,000	5,100	5,202	5,306.04	5,412.16
Advertising	15,000	15,150	15,301.5	15,454.52	15,609.06

To begin this project, Virat Ltd. will need to invest ₹ 15,00,000 in fixed assets, with a useful life of 10 years and terminal (sale) value at the end of 5th as ₹ 7,50,000. This investment will be financed through a mix of ₹ 5,00,000 in equity (50,000 new shares at ₹ 10 each) and ₹ 10,00,000 in debt. For this company issued 10,000, 10% debentures of ₹ 100 each at a premium of 10% on 1.4.2026 to be matured after 5 years. The debentures will be redeemed at par on maturity.

You are now required to analyse both the company's current performance and the financial feasibility of the new project using the information provided and answer the following questions (MCQ 1 to 5):

- Calculate the profit or loss for the current year
 - ₹ 1,52,500
 - ₹ 1,42,500
 - ₹ 1,38,500
 - ₹ 1,32,275
- Calculate the Return on Equity (ke) for the firm.
 - 15.99%
 - 15.90%
 - 15.00%
 - 14.95%

3. What is the Weighted Average Cost of Capital (WACC) to be considered for valuing the firm in current year.
- (a) 12.73%
 - (b) 11.50%
 - (c) 9.97%
 - (d) 10.97%
4. Compute the cost of new debentures assuming 35% as tax rate.
- (a) 4.28%
 - (b) 6.50%
 - (c) 10.00%
 - (d) 6.97%
5. What is NPV of the New Project using the discount rate of 12%?
- (a) ₹ 3,50,000
 - (b) (₹ 3,118)
 - (c) ₹ 4,22,133
 - (d) ₹ 3,118
- (5 x 2 = 10 Marks)**
6. A company is considering two financing plans:
- Plan A (Equity only): 40,000 equity shares
 - Plan B (Debt + Equity): Debt of ₹ 12,00,000 at 10% interest and 25,000 equity shares
- Tax rate = 30%.
- The EBIT indifference point between Plan A and Plan B is:
- (a) ₹ 4,00,000
 - (b) ₹ 4,80,000
 - (c) ₹ 6,00,000
 - (d) ₹ 3,20,000
- (2 Marks)**

7. A company operates at a production level of 5,000 units. The contribution is ₹ 60 per unit, operating leverage is 6, combined leverage is 24. If tax rate is 30%, what would be its earnings after tax?
- (a) ₹ 8,750
 (b) ₹ 30,000
 (c) ₹ 9,500
 (d) ₹ 10,000 (2 Marks)
8. ABC Ltd. has earnings of ₹ 50,00,000 and 10,00,000 equity shares. The company is considering two dividend policies:
- Policy A: Pay 100% dividend
 - Policy B: Retain all earnings
- According to MM Proposition I (no taxes), the market value of the firm under both policies will be:
- (a) ₹ 1,00,00,000 for Policy A; ₹ 1,20,00,000 for Policy B
 (b) ₹ 1,00,00,000 for both policies
 (c) ₹ 1,10,00,000 for Policy A; ₹ 1,00,00,000 for Policy B
 (d) ₹ 90,00,000 for Policy A; ₹ 1,10,00,000 for Policy B (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) Following information relate to a concern:

Debtors Velocity	3 months
Credits Velocity	2 months
Stock Turnover Ratio	1.5
Gross Profit Ratio	25%
Bills Receivables	₹ 25,000
Bills Payables	₹ 10,000
Gross Profit	₹ 4,00,000
Fixed Assets to turnover Ratio	4

Closing stock of the period is ₹ 10,000 above the opening stock.

CALCULATE

- (i) Sales and cost of goods sold
- (ii) Sundry Debtors
- (iii) Sundry Creditors
- (iv) Closing Stock
- (v) Fixed Assets

(5 Marks)

- (b) Deepa Limited has Earnings Before Interest and Taxes (EBIT) amounting to ₹ 60,00,000. The company is considering the introduction of debt into its capital structure and is evaluating different levels of debt financing. The details of the alternative debt options, along with the corresponding cost of debt and cost of equity, are given below:

Option	Debt in Capital Structure	Cost of Debt (Kd)	Cost of Equity (Ke)
1	₹ 60,00,000	10%	12%
2	₹ 75,00,000	13%	15%
3	₹ 90,00,000	14%	16%
4	₹ 1,05,00,000	14%	16%

Assuming that the company operates in zero tax regime.

WHICH option of debt financing in the capital structure would you recommend as per Traditional Approach of the capital structure theory?

(5 Marks)

- (c) Orion Aerospace Ltd. manufactures highly customized components for satellites launched by the France and Germany. The company operates through eight locations worldwide, including its central headquarters. To streamline the budgeting process and reduce escalating travel costs, the Finance Director, Ms. Ananya Rao, is considering the introduction of video conferencing as an alternative to physical meetings.

In previous years, the company sent two executives from each location to the central headquarters twice a year for budget discussions. The average travel cost per executive (including airfare, accommodation, and meals) is ₹ 27,000 per trip.

Under the proposed plan, Orion Aerospace Ltd. would install a video conferencing system at each location at a cost of ₹ 8,25,000 per location. In addition, the system would incur an average telephone transmission cost of ₹ 300 per hour, and it is estimated that 48 hours of transmission time per year would be required to

complete the budgeting process. The company depreciates such equipment using the straight-line method over a useful life of five years, with no residual value.

As an alternative, the company may opt to use locally rented video conferencing facilities, which are available at a cost of ₹ 1,500 per hour, plus ₹ 400 per hour towards average telephone charges.

Additional Information:

The company follows a policy of minimum annual cash savings of 10% of the existing travel cost before approving any new cost-saving technology.

You are a Senior Officer in the Finance Department. Based on the above information, you are required to EVALUATE the proposal and advise Ms. Ananya Rao on whether Orion Aerospace Ltd. should implement video conferencing, and if so, WHICH alternative would be financially preferable. **(5 Marks)**

2. Sundaram Industries Ltd., a medium-sized manufacturing company based in Tamil Nadu, is engaged in producing a consumer product that involves significant working capital requirements. The company's finished goods are sold across state borders, and therefore all sales and purchases are subject to Integrated GST (IGST) at 18%.

The company spends a total of ₹ 90 lakhs annually in cash, incurred at a constant rate. Its selling price structure consists of the following elements:

- Raw Material – 60%
- Wages – 20%
- Direct Overheads – 10%
- Gross Profit – 10%

Thus, 90% of the selling price represents the cost of production.

During the current month, the company has processed 75% of its purchases into finished goods and sold them entirely. Wages and Overheads are paid 80% in the current month and 20% in the next month. The Cash-to-Cash Conversion Cycle (CCC) is 30 days shorter than the Gross Operating Cycle. The company's Cash Turnover is 9 times per year. At the end of the current month, the company has paid ₹ 45,000 towards IGST liability.

The company holds long-term investments which generate a monthly return of 1.5% net of 10% TDS. If needed, the company can borrow / invest funds at an interest rate equal to this pre-tax return. There is no WIP.

The company's supplier has offered a 2% cash discount if invoices are settled within 15 days, compared to the regular day credit period. Management must evaluate whether to accept this discount.

- (i) PREPARE a Working Capital Statement as at the end of the month, clearly showing Current Assets and Current Liabilities, and compute the net Working Capital requirement.
 - (ii) Suppose company has offered credit terms from its major supplier of 2/15, net 60. CALCULATE the implied annual cost of foregoing the discount and advise whether the company should accept the offer given its current cost of capital.
 - (iii) Assuming invoice value is ₹ 10,000, COMPARE the net cost to the company if it accepts the discount versus if it refuses the discount and invests the funds between day 15 and day 60. **(10 Marks)**
3. (a) ShirtCo is a garment manufacturing company producing and selling 10,000 shirts every year.

The company's cost and revenue structure is as follows:

Particulars	Amount (₹ / per unit)
Selling Price	500
Variable Cost	200
Fixed Cost (Total)	25,00,000

The company's Chief Accountant has calculated the Degree of Operating Leverage (DOL) as 6 times and the Degree of Combined Leverage (DCL) as 12 times, based on the current level of production and sales.

He claims that "If sales increase by 10%, the EBIT will increase by 60%."

As a financial analyst, you are asked to verify whether his contention is correct under the following independent situations:

1. Case 1: Production and sales quantity increase by 10%, while selling price and costs remain unchanged.
2. Case 2: The selling price per shirt increases by 10%, while the sales quantity and cost remains unchanged.
3. Case 3: The selling price per shirt increases by 10%, but the price elasticity of demand is 1.2, leading to a change in sales quantity accordingly.

Required:

- (i) CALCULATE the new EBIT under each case.

- (ii) DETERMINE the percentage change in EBIT compared to the original level under each case.
 - (iii) COMMENT on the accuracy of the Chief Accountant's claim in each situation. If not correct, give reasons.
 - (iv) Assuming the company is tax exempt and the company has 10% Debentures amounting to INR 25 Lakhs and 10% Preference Shares amounting to INR 10 Lakhs, Comment whether the financial leverage computed by the Chief Accountant is correct. If not, COMPUTE the correct DFL and DCL. [Consider the base case for this part. Ignore the changes in quantity and price.] **(7 Marks)**
- (b) In October, 2025 AB Co.'s share was sold for ₹ 146 per share. A long term earnings growth rate of 7.5% is anticipated. AB Co. is expected to pay dividend of ₹ 3.36 per share.
- (i) DETERMINE rate of return an investor can expect to earn assuming that dividends are expected to grow along with earnings at 7.5% per year in perpetuity?
 - (ii) It is expected that AB Co. will earn about 10% on book Equity and shall retain 60% of earnings. In this case, whether, there would be any change in growth rate and cost of Equity? ANALYSE. **(3 Marks)**
4. (a) Oceanic Retail Pvt. Ltd., a fast-growing chain of supermarkets, is planning to expand its presence across multiple cities. The company's CFO, Mr. Arvind Mehta, is evaluating different lease contracts for acquiring stores and equipment. The legal team has informed him that besides the common Finance Lease and Operating Lease, there are several other types of lease arrangements. EXPLAIN four other types of lease arrangements. **(4 Marks)**
- (b) TechWave Ltd. plans to buy new machinery worth ₹ 50 lakh to increase production. The Finance Manager says that before investing, the company must understand the cost of capital. In this regard you are required to EXPLAIN the meaning of cost of capital. Also, briefly STATE three reasons why cost of capital is significant for decision-making at TechWave Ltd. **(4 Marks)**
- (c) HOW do we measure the value/wealth of a firm? **(2 Marks)**
- OR**
- (c) EXPLAIN any common form of dividend. **(2 Marks)**

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)

- (A) Titan Tech, a mid-sized software development company based in India, has been experiencing rapid growth over the past five years. The company specializes in customized software solutions for small and medium enterprises (SMEs). However, the competitive landscape is shifting due to the entry of global tech giants and evolving customer needs.

To chart its future strategy, Titan Tech conducted a PESTLE analysis. Politically, government incentives for digital transformation present growth opportunities, but regulatory compliance is tightening. Economically, rising disposable incomes of SMEs promise market expansion, yet inflation is driving up operational costs. Technological advancements like AI and blockchain are reshaping industry standards, and environmentally, there is pressure to adopt sustainable practices. Socially, SMEs are increasingly valuing personalized customer support. Lastly, legal changes in data privacy regulations pose significant compliance challenges.

Titan Tech also mapped its stakeholders using Mendelow's Matrix. Customers and key investors, identified as high-power, high-interest stakeholders, require constant engagement. Employees, although influential, have medium interest, while regulatory bodies, with high power but low interest, need to be monitored closely.

For strategic growth, the leadership team evaluated their product portfolio using the BCG Matrix. Their flagship product, BizEase (a CRM tool), is a "Star," showing high market growth and market share. The legacy ERP product is a "Cash Cow," while new offerings in AI-driven analytics are "Question Marks." A failed project management tool was classified as a "Dog" and discontinued.

The CEO, Priya Mehra, believes the company's leadership style needs to evolve to meet internal and external challenges. While her approach has traditionally been transactional, focusing on clear roles and rewards, she recognizes the need to adopt a more transformational style to inspire innovation and motivate employees amid uncertainty.

To stay competitive, Titan Tech has adopted Michael Porter's differentiation strategy. By focusing on delivering highly customizable solutions and superior customer service, they

aim to stand out in the crowded market. Additionally, a value chain analysis revealed that investing in advanced R&D and strengthening customer support are critical to maintaining their competitive advantage.

As Titan Tech faces these crossroads, the company's leadership must make strategic decisions to sustain growth and profitability.

Based on the above Case Scenario, answer the Multiple-Choice Questions.

- (i) Which external factor from the PESTLE analysis is most likely to require Titan Tech to adapt its data management practices?
 - (a) Government incentives for digital transformation
 - (b) Changes in data privacy regulations
 - (c) Rising disposable incomes of SMEs
 - (d) Advancements in AI and blockchain **(2 Marks)**
- (ii) According to Mendelow's Matrix, which group of stakeholders requires the highest level of engagement from Titan Tech?
 - (a) Employees
 - (b) Regulatory bodies
 - (c) Customers and key investors
 - (d) Suppliers **(2 Marks)**
- (iii) Which product in Titan Tech's portfolio is most likely funding the company's investment in AI-driven analytics?
 - (a) BizEase
 - (b) The legacy ERP product
 - (c) The failed project management tool
 - (d) AI-driven analytics offerings **(2 Marks)**
- (iv) What leadership change is Priya Mehra considering inspiring innovation within Titan Tech?
 - (a) Shifting from transactional to transformational leadership
 - (b) Focusing on stricter performance metrics
 - (c) Moving to a completely laissez-faire leadership style
 - (d) Increasing reliance on transactional leadership **(2 Marks)**

(v) How does Titan Tech's use of Michael Porter's differentiation strategy help it stay competitive?

- (a) By offering the lowest-cost products in the market
 - (b) By focusing on mass-market appeal
 - (c) By providing highly customizable solutions and superior customer service
 - (d) By heavily investing in advertising
- (2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) Green Earth, an environmental organization, has formulated a statement: "To promote environmental sustainability by advocating renewable energy and conservation practices." Which area of strategic intent is represented in the statement?

- (a) Vision Statement
 - (b) Business definition
 - (c) Goal and Objective
 - (d) Mission Statement
- (2 Marks)**

(ii) Imagine you are tasked with analyzing the competitive landscape for a new product launch. In this context, which of the following factors is not relevant to understanding the competitive landscape?

- (a) Identifying the competitor
 - (b) Understanding the customer
 - (c) Determining the strength of the competitors
 - (d) Determining the weakness of the competitors
- (2 Marks)**

(iii) An airline operator is providing special lounge at major airports for its frequent flyers. This marketing technique is known as: -

- (a) Relationship Marketing
 - (b) Augmented Marketing
 - (c) Social Marketing
 - (d) Synchro 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) A luxury skincare brand saw a sudden spike in sales after celebrity endorsements and social media promotions. What factors could be influencing this change in consumer buying behavior, and why is understanding such behavior critical to business success? **(5 Marks)**
 - (b) A consumer technology startup continually revises its business model to align with shifting user behaviour, the rise of new digital platforms and rapid technological advancements. In the context of internal strategic analysis, identify the key internal elements or strategic drivers that the firm is responding to that shape its strategic direction? **(5 Marks)**
 - (c) *SunSip Beverages* has introduced a cost-saving strategy across its manufacturing and warehousing operations. The Managing Director seeks continuous monitoring to ensure the strategy is being implemented accurately, with any deviations corrected promptly. He also wants the approach to remain flexible so the company can quickly adjust to market changes or unforeseen developments. What types of strategic controls can the organisation adopt to ensure timely corrections and effective adaptation to changing conditions? **(5 Marks)**
2.
 - (a) Sky chemical industry intends to grow its business. Advise the company on the available options using Ansoff's product market growth matrix. **(5 Marks)**
 - (b) In light of the five forces as propagated by Michael Porter, explain the common barriers which may cause restrain for the keenness of new entrepreneurs. **(5 Marks)**
3.
 - (a) Explain the pointers for navigating change during digital transformation. **(5 Marks)**
 - (b) What are channels? Why is channel analysis important? Explain the different types of channels? **(5 Marks)**
4.
 - (a) Explain the concept of vertically integrated diversification. How is forward integration different from backward integration? **(5 Marks)**

- (b) Although functional-level managers operate at the lower end of the management hierarchy, their responsibilities are vital to ensure the smooth and successful functioning of a business. Discuss the importance of functional-level managers in achieving organisational objectives.

OR

XYZ Enterprises operates in various sectors, including renewable energy solutions, organic skincare products, eco-friendly packaging, and smart home technologies. The organization is currently in the process of recruiting a Chief Executive Officer. In this scenario, imagine yourself as an HR consultant for XYZ Enterprises. Identify the strategic level that encompasses this role within XYZ Enterprises. Provide an overview of the key duties and responsibilities falling under the Chief Executive Officer's scope. **(5 Marks)**

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PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I – Case Scenario based MCQs

Case Scenario 1

1. (d) ₹ 1,32,275

Particulars	Amount (₹)
Revenues	₹ 20,00,000
Less: COGS @ 40%	₹ 8,00,000
Gross Profit	₹ 12,00,000
Employee cost	₹ 2,00,000
Electricity and other cost	₹ 50,000
Other advt	₹ 50,000
Finance cost	₹ 6,96,500
Total Expenses	₹ 9,96,500
PBT	₹ 2,03,500
Tax @35%	₹ 71,225
PAT	₹ 1,32,275

2. (b) 15.90%

Cost of Equity using CAPM

$$\begin{aligned}K_e &= R_f + (R_m - R_f) \text{ Beta} \\&= 5.45\% + (14.95\% - 5.45\%)1.1 \\&= 15.90\%\end{aligned}$$

3. (b) 11.50%

Calculation of WACC

Source	Capital	Weight (W)	Cost before tax	After tax Cost (K)	WACC (W x C)
Equity	80,00,000	0.533	15.90%	15.90%	8.48%
Debt	70,00,000	0.467	9.95%	6.47%	3.02%
	1,50,00,000				11.50%

4. (a) 4.28%

$$\text{Cost of debenture (K}_d\text{)} = \frac{I(1-t) + \frac{(RV-NP)}{n}}{\frac{(RV+NP)}{2}}$$

I = Interest on debenture = 10% of ₹100 = ₹10

NP = Net Proceeds = 110% of ₹100 = ₹110

RV = Redemption value = ₹100

n = Period of debenture = 5 years

t = Tax rate = 35% or 0.35

$$K_d = \frac{₹ 10(1-0.35) + \frac{(₹ 100 - ₹ 110)}{5 \text{ years}}}{\frac{(₹ 100 + ₹ 110)}{2}}$$

$$\text{Or, K}_d = \frac{(₹ 10 \times 0.65) - ₹ 2}{₹ 105} = \frac{₹ 4.5}{₹ 105} = 0.0428 \text{ or } 4.28\%$$

5. (c) ₹ 4,22,133

Calculation of Cash Inflows

Year	2026	2027	2028	2029	2030
Revenue	9,50,000	10,45,000	11,49,500	12,64,450	13,90,895
COGS %	40%	42%	45%	47%	50%
COGS (₹)	3,80,000	4,38,900	5,17,275	5,94,292	6,95,447
Gross Profit	5,70,000	6,06,100	6,32,225	6,70,159	6,95,448

Employee Costs	45,000	47,250	49,613	52,093	54,698
Electricity/Other	5,000	5,100	5,202	5,306	5,412
Advertising	15,000	15,150	15,302	15,455	15,609
Depreciation	1,50,000	1,50,000	1,50,000	1,50,000	1,50,000
Profit before tax	3,55,000	3,88,600	4,12,109	4,47,305	4,69,729
Less: Tax	1,24,250	1,36,010	1,44,238	1,56,557	1,64,405
Profit After Tax	2,30,750	2,52,590	2,67,871	2,90,748	3,05,324
Add: Depreciation	1,50,000	1,50,000	1,50,000	1,50,000	1,50,000
Net Cashflow	3,80,750	4,02,590	4,17,871	4,40,748	4,55,324 + 7,50,000 (TV of Asset)
PV Factor @12%	0.893	0.797	0.712	0.636	0.567
PV	3,40,010	3,20,864	2,97,524	2,80,316	6,83,419

NPV = 19,22,133 – 15,00,000 = ₹ 4,22,133

6. (d) ₹ 3,20,000

Plan A

$$EPS_A = \frac{EBIT \times (1 - 0.30)}{40,000} = \frac{0.70 EBIT}{40,000}$$

Plan B

$$EPS_B = \frac{(EBIT - 1,20,000)(1 - 0.30)}{25,000} = \frac{0.70(EBIT - 1,20,000)}{25,000}$$

Equating Plan A and Plan B

$$\frac{0.70 EBIT}{40,000} = \frac{0.70(EBIT - 1,20,000)}{25,000}$$

$$\frac{EBIT}{40,000} = \frac{EBIT - 1,20,000}{25,000}$$

EBIT = ₹ 3,20,000

7. (a) ₹ 8,750

Computation of Earnings after tax (EAT) or Profit after tax (PAT)

Total contribution = 5,000 units x ₹ 60/unit = ₹ 3,00,000

Operating leverage (OL) x Financial leverage (FL) = Combined leverage (CL)

∴ 6 × FL = 24

∴ FL = 4

$$\begin{aligned} \therefore \text{OL} &= \frac{\text{Contribution}}{\text{EBIT}} \quad \therefore 6 = \frac{\text{₹ } 3,00,000}{\text{EBIT}} \quad \therefore \text{EBIT} = \text{₹ } 50,000 \\ \text{FL} &= \frac{\text{EBIT}}{\text{EBT}} \quad \therefore 4 = \frac{\text{₹ } 50,000}{\text{EBT}} \quad \therefore \text{EBT} = \text{₹ } 12,500 \end{aligned}$$

Since tax rate is 30%, therefore, Earnings after tax = $12,500 \times 0.70 = \text{₹ } 8,750$

Earnings after tax (EAT) = ₹ 8,750

8. (b) ₹ 1,00,00,000 for both policies

Under MM (no taxes), dividend policy does not affect firm value.

Part II - Descriptive Questions

1. (a) (i) Determination of Sales and Cost of goods sold:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

$$\text{Or, } \frac{25}{100} = \frac{\text{₹ } 4,00,000}{\text{Sales}}$$

$$\text{Or, Sales} = \frac{4,00,000}{25} = \text{₹ } 16,00,000$$

$$\text{Cost of Goods Sold} = \text{Sales} - \text{Gross Profit}$$

$$= \text{₹ } 16,00,000 - \text{₹ } 4,00,000 = \text{₹ } 12,00,000$$

(ii) Determination of Sundry Debtors:

Debtors velocity is 3 months or Debtors' collection period is 3 months,

$$\text{So, Debtors' turnover ratio} = \frac{12 \text{ months}}{3 \text{ months}} = 4$$

$$\begin{aligned} \text{Debtors' turnover ratio} &= \frac{\text{Credit Sales}}{\text{Average Accounts Receivable}} \\ &= \frac{\text{₹ } 16,00,000}{\text{Bills Receivable} + \text{Sundry Debtors}} = 4 \end{aligned}$$

$$\text{Or, Sundry Debtors} + \text{Bills receivable} = \text{₹ } 4,00,000$$

$$\text{Sundry Debtors} = \text{₹ } 4,00,000 - \text{₹ } 25,000 = \text{₹ } 3,75,000$$

(iii) Determination of Sundry Creditors:

Creditors velocity of 2 months or credit payment period is 2 months.

$$\text{So, Creditors' turnover ratio} = \frac{12 \text{ months}}{2 \text{ months}} = 6$$

$$\begin{aligned} \text{Creditors turnover ratio} &= \frac{\text{Credit Purchases}^*}{\text{Average Accounts Payables}} \\ &= \frac{\text{₹ 12,10,000}}{\text{Sundry Creditors + Bills Payables}} = 6 \end{aligned}$$

$$\text{So, Sundry Creditors + Bills Payable} = \text{₹ 2,01,667}$$

$$\text{Or, Sundry Creditors} + \text{₹ 10,000} = \text{₹ 2,01,667}$$

$$\text{Or, Sundry Creditors} = \text{₹ 2,01,667} - \text{₹ 10,000} = \text{₹ 1,91,667}$$

(iv) Closing Stock

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{\text{₹ 12,00,000}}{\text{Average Stock}} = 1.5$$

$$\text{So, Average Stock} = \text{₹ 8,00,000}$$

$$\text{Now Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

$$\text{Or } \frac{\text{Opening Stock} + (\text{Opening Stock} + \text{₹ 10,000})}{2} = \text{₹ 8,00,000}$$

$$\text{Or, Opening Stock} = \text{₹ 7,95,000}$$

$$\text{So, Closing Stock} = \text{₹ 7,95,000} + \text{₹ 10,000} = \text{₹ 8,05,000}$$

(v) Calculation of Fixed Assets

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Fixed Assets}} = 4$$

$$\text{Or, } \frac{\text{₹ 12,00,000}}{\text{Fixed Assets}} = 4$$

$$\text{Or, Fixed Asset} = \text{₹ 3,00,000}$$

Workings:***Calculation of Credit purchases:**

Cost of goods sold = Opening stock + Purchases – Closing stock

₹ 12,00,000 = ₹ 7,95,000 + Purchases – ₹ 8,05,000

₹ 12,00,000 + ₹ 10,000 = Purchases

₹ 12,10,000 = Purchases (credit).

Assumption:

- (i) All sales are credit sales
- (ii) All purchases are credit purchase
- (iii) Stock Turnover Ratio and Fixed Asset Turnover Ratio may be calculated either on Sales or on Cost of Goods Sold.

(b)

Particulars	1	2	3	4
EBIT	60,00,000	60,00,000	60,00,000	60,00,000
Less:				
Interest	6,00,000	9,75,000	12,60,000	14,70,000
Earning available for equity holders [A]	54,00,000	50,25,000	47,40,000	45,30,000
Equity capitalization rate [B]	12%	15%	16%	16%
Market Value of equity [A]/[B]	4,50,00,000	3,35,00,000	2,96,25,000	2,83,12,500
Market value of debt (given)	60,00,000	75,00,000	90,00,000	105,00,000
Total Market Value	5,10,00,000	4,10,00,000	3,86,25,000	3,88,12,500
Overall cost of capital = $\frac{\text{EBIT} \times 100}{\text{Total market value}}$	11.76%	14.63%	15.53%	15.46%

The capital structure having debt of ₹ 60,00,000 is recommended as overall cost of capital is minimum at 11.76%.

(c) Option I : Cost of travel, in case Video Conferencing facility is not provided

Total Trip = No. of Locations × No. of Persons × No. of Trips per Person = 7 × 2 × 2 = 28 Trips

Total Travel Cost (including air fare, hotel accommodation and meals) (28 trips × ₹ 27,000 per trip)

= ₹ 7,56,000

Option II : Video Conferencing Facility is provided by Installation of Own Equipment at Different Locations

Cost of Equipment at each location (₹ 8,25,000 × 8 locations) = ₹ 66,00,000

Economic life of Machines (5 years). Annual depreciation (66,00,000/5)
= ₹ 13,20,000

Annual transmission cost (48 hrs. transmission × 8 locations × ₹ 300 per hour)
= ₹ 1,15,200

Annual cost of operation (13,20,000 + 1,15,200) = **₹ 14,35,200**

Option III : Engaging Video Conferencing Facility on Rental Basis

Rental cost (48 hrs. × 8 location × ₹ 1,500 per hr) = ₹ 5,76,000

Telephone cost (48 hrs. × 8 locations × ₹ 400 per hr.) = ₹ 1,53,600

Total rental cost of equipment (5,76,000 + 1,53,600) = **₹ 7,29,600**

Minimum required savings = 10% of existing travel cost

Required minimum savings = 10% of ₹ 7,56,000 = ₹ 75,600

Actual Savings Using Rented Facilities = ₹ 7,56,000 - ₹ 7,29,600 = **₹ 26,400**

Analysis: The annual cost is minimum, if video conferencing facility is engaged on rental basis. However, saving is less than 10% of existing travel cost. Therefore, no change is suggested.

2. (i) Let the Purchase of Raw Material be X.

Hence, RM consumed = 0.75X.

Wages 1/3rd of RM = 0.25X

OH & GP 1/6th of RM each = 1/3rd of RM = 0.25X

Sales = 0.75X + 0.25X + 0.25X = 1.25X

GST paid = Output IGST - Input IGST

45,000 = 0.225X - 0.18X = 0.045X

Purchases(X) = 10,00,000

Sales	= 1.25X	= 12,50,000
Cash Turnover	= 9	= 360/Cash cycle
Cash cycle	= 360/9	= 40 days
Operating Cycle	= 40 + 30	= 70 days
Closing Stock	= 25% of Purchases	= 2,50,000
RM Holding period	= $\frac{2,50,000}{7,50,000 / 30 \text{ days}}$	= 10 days
Cash Cycle	= Gross Operating Cycle – Credit Period by Supplier	
40 days	= 70 days - Credit Period by Supplier	
Credit Period by Supplier	= 30 days or 1 months	
Gross Operating Cycle	= Inventory Conversion + Debtors Credit period	
Debtors Credit period	= 70 - 10	= 60 days

Statement of Working Capital requirements

	(₹)	(₹)
A. Current Assets		
Inventory:		
-Raw materials (Refer WN)	2,50,000	
Receivables (Debtors) (12,50,000 x 2 months)	25,00,000	
Cash balance (90,00,000 / 9)	10,00,000	37,50,000
Gross Working Capital		37,50,000
B. Current Liabilities:		
Payables:		
-Creditors for materials (1 month)	10,00,000	
Wages and overhead outstanding (20% of Total wages & OH i.e 20% x 2,50,000 for 1 month)	50,000	10,50,000
Net working capital (A - B)		27,00,000

(ii) Evaluating Supplier's Offer

$$\text{Gross Return for Additional borrowing/ investment} = \frac{1.5\%}{90\%} \times 12 = 20\%$$

If the company does not avail the cash discount and pays the amount after 45 days, the implied cost of interest per annum would be approximately:

$$\left(\frac{100}{100 - d} \right)^{\frac{365}{t}} - 1$$

$$\left(\frac{100}{100 - 2} \right)^{\frac{360}{45}} - 1$$

= 17.54%

Advise: Company should not accept supplier's offer since the gross return is more than the supplier's offer.

(iii) **Comparison of Net Cost, if the invoice amount is 10,000**

Particulars	Refuse discount (₹)	Accept discount (₹)
Payment to supplier	10,000	9,800
Return from investing ₹ 9,800 between day 15 and day 60: $45/360 \times ₹ 9,800 \times 20\%$	(245)	—
Net Cost	9,755	9,800

Advise: Thus, it is better for the company to refuse the discount, as return on cash retained is more than the saving on account of discount.

3. (a) **Calculation of Current EBIT**

Particulars	Amount (₹)
Sales (10,000 × 500)	50,00,000
Variable cost (10,000 × 200)	20,00,000
Contribution	30,00,000
Fixed cost	25,00,000
EBIT	5,00,000

Case 1 — Quantity (production & sales) increases by 10% (price & costs unchanged)

New quantity = 10,000 × 1.10 = **11,000 units**

Particulars	Amount (₹)
Contribution (11,000 × 300)	33,00,000
Fixed cost	25,00,000
New EBIT	8,00,000

% Change in EBIT

$$\frac{8,00,000-5,00,000}{5,00,000} \times 100 = 60\%$$

Conclusion (Case 1): The accountant's statement is correct here. A 10% rise in quantity produces a 60% rise in EBIT.

Case 2 — Selling price per unit increases by 10% (quantity unchanged; variable cost unchanged)

New price = $500 \times 1.10 = 550$ pu

Variable cost per unit = 200

Contribution per unit = 350

Quantity = 10,000

Particulars	Amount (₹)
Contribution (10,000 × 350)	35,00,000
Fixed cost	25,00,000
New EBIT	10,00,000

% Change in EBIT

$$\frac{10,00,000-5,00,000}{5,00,000} \times 100 = 100\%$$

Conclusion (Case 2): The accountant's 60% prediction is not correct. A 10% price increase (with volume fixed) doubles EBIT here — a 100% increase — because unit contribution rises from 300 to 350 (a 16.67% increase in contribution per unit) while fixed costs stay the same.

Case 3 — Price increases by 10% but demand responds with price elasticity = 1.2

Price elasticity of demand (absolute value) = 1.2 means a 10% price increase causes a 12% decrease in quantity (elastic demand). Price and Quantity demanded are inversely correlated.

New price = 550 pu (10% ↑)

Particulars	Amount (₹)
Contribution per unit	350

Total contribution (8,800 × 350)	30,80,000
Fixed cost	25,00,000
New EBIT	5,80,000

% Change in EBIT

$$\frac{5,80,000 - 5,00,000}{5,00,000} \times 100 = 16\%$$

Conclusion (Case 3): The accountant's 60% prediction is wrong. Because quantity falls (elastic demand) the net effect is only a 16% increase in EBIT.

Reason: Operating Leverage means percentage change in EBIT with respect to percentage change in sales quantity. OL is a function of Fixed cost, variable contribution margin and Sales Volume. Hence, OL will be justified if there is change in sales volume i.e. Quantity.

$$(iv) DCL = DOL \times DFL$$

$$12 = 6 \times DFL$$

$$DFL = 2$$

Earnings Before Tax (EBT)

$$EBT = 5,00,000 - 2,50,000 = 2,50,000$$

Correct Degree of Financial Leverage (DFL)

$$\begin{aligned} DFL &= \frac{EBIT}{EBT - \text{Preference Dividend}} \\ &= \frac{5,00,000}{2,50,000 - 1,00,000} \\ &= 3.33 \end{aligned}$$

$$\text{Hence, } DCL = 6 \times 3.33 = 20$$

Therefore, the financial leverage computed by the Chief Accountant is not correct

- (b) (i) According to Dividend Discount Model approach the firm's expected or required return on equity is computed as follows:

$$= \frac{D_1}{P_0} + g$$

Where,

K_e = Cost of equity share capital

D_1 = Expected dividend at the end of year 1

P_0 = Current market price of the share.

g = Expected growth rate of dividend.

$$\begin{aligned}\text{Therefore, } K_e &= \frac{3.36}{146} + 7.5\% \\ &= 0.0230 + 0.075 = 0.098\end{aligned}$$

$$\text{Or, } K_e = 9.80\%$$

- (ii) With rate of return on retained earnings (r) 10% and retention ratio (b) 60%, new growth rate will be as follows:

$$\begin{aligned}g &= br \\ &= 0.10 \times 0.60 = 0.06\end{aligned}$$

Accordingly, dividend will also get changed and to calculate this, first we shall calculate previous retention ratio (b_1) and then EPS assuming that rate of return on retained earnings (r) is same.

With previous Growth Rate of 7.5% and $r = 10\%$ the retention ratio comes out to be:

$$0.075 = b_1 \times 0.10$$

$$b_1 = 0.75 \text{ and payout ratio} = 0.25$$

With 0.25 payout ratio the EPS will be as follows:

$$\frac{3.36}{0.25} = 13.44$$

With new 0.40 ($1 - 0.60$) payout ratio the new dividend will be

$$D_1 = 13.44 \times 0.40 = 5.376$$

Accordingly new K_e will be

$$K_e = \frac{5.376}{146} + 6.0\%$$

$$K_e = 9.68\%$$

4. (a) **Other Types of Leases are explained below:**

- (i) **Sales and Lease Back:** Under this type of lease, the owner of an asset sells the asset to a party (the buyer), who in turn leases back the same asset to the owner in consideration of a lease rentals. Under this arrangement, the asset is not physically exchanged but it all happen in records only. The main advantage of this method is that the lessee can satisfy himself completely regarding the quality of an asset and after possession of the asset convert the sale into a lease agreement.

Under this transaction, the seller assumes the role of lessee (as the same asset which he has sold came back to him in the form of lease) and the buyer assumes the role of a lessor (as asset purchased by him was leased back to the seller). So, the seller gets the agreed selling price and the buyer gets the lease rentals.

- (ii) **Leveraged Lease:** Under this lease, a third party is involved besides lessor and the lessee. The lessor borrows a part of the purchase cost (say 80%) of the asset from the third party i.e., lender and asset so purchased is held as security against the loan. The lender is paid off from the lease rentals directly by the lessee and the surplus after meeting the claims of the lender goes to the lessor. The lessor is entitled to claim depreciation allowance.

- (iii) **Sales-aid Lease:** Under this lease contract, the lessor enters into a tie up with a manufacturer for marketing the latter's product through his own leasing operations, it is called a sales-aid lease. In consideration of the aid in sales, the manufacturer may grant either credit or a commission to the lessor. Thus, the lessor earns from both sources i.e. from lessee as well as the manufacturer.

- (iv) **Close-ended and Open-ended Leases:** In the close-ended lease, the assets get transferred to the lessor at the end of lease, the risk of obsolescence, residual value etc., remain with the lessor being the legal owner of the asset. In the open-ended lease, the lessee has the option of purchasing the asset at the end of the lease period.

- (b) Cost of capital is the return expected by the providers of capital (i.e. shareholders, lenders and the debt-holders) to the business as a compensation for their contribution to the total capital.

The cost of capital is important to arrive at correct amount and helps the management or an investor to take an appropriate decision. The correct cost of capital helps in the following decision making:

- (i) **Evaluation of investment options:** The estimated benefits (future cash flows) from available investment opportunities (business or project) are converted into the present value of benefits by **discounting them with the relevant cost of capital**. Here it is pertinent to mention that every investment option may have different cost of capital hence it is very important to use the cost of capital which is relevant to the options available.
 - (ii) **Financing Decision:** When a finance manager has to choose one of the two sources of finance, he can simply compare their cost and choose the source which has lower cost. Besides cost, he also considers financial risk and control.
 - (iii) **Designing of optimum credit policy:** While appraising the credit period to be allowed to the customers, the cost of allowing credit period is compared against the benefit/ profit earned by providing credit to customer of segment of customers. Here cost of capital is used to arrive at the present value of cost and benefits received.
- (c) According to Van Horne, "Value of a firm is represented by the market price of the company's common stock. The market price of a firm's stock represents the focal judgment of all market participants as to what the value of the particular firm is. It takes into account present and prospective future earnings per share, the timing and risk of these earnings, the dividend policy of the firm and many other factors that bear upon the market price of the stock. The market price serves as a performance index or report card of the firm's progress. It indicates how well management is doing on behalf of stockholders."

OR

- (c) Generally, the dividend can be of the following forms (depending upon some factors that will be discussed later):
1. **Cash dividend:** It is the most **common form of dividend**. Cash here means cash, cheque, warrant, demand draft, pay order or directly through Electronic Clearing Service (ECS) but not in kind.
 2. **Share repurchases:** A share repurchase is transaction in which company buys back its own shares using corporate cash. This is done by lot of corporates these days.
 3. **Stock dividend (Bonus Shares):** It is a **distribution of shares in lieu of cash dividend**. When the company issues new shares to its existing shareholders without any consideration it is called bonus shares.

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

- | | | | | | | | | | | |
|--------|-----|-----|------|-----|-------|-----|------|-----|-----|-----|
| 1. (A) | (i) | (b) | (ii) | (c) | (iii) | (b) | (iv) | (a) | (v) | (c) |
| (B) | (i) | (d) | (ii) | (b) | (iii) | (a) | | | | |

PART II

1. (a) The sudden surge in demand for the skincare brand after celebrity endorsements can be explained through the framework of **Consumer Behaviour**, which goes beyond identifying customers and focuses on how they purchase products, their preferences, perceptions and shopping patterns.

Consumer behaviour is influenced by four major conceptual domains:

1. **External Influences:** These include factors such as advertisements, celebrity endorsements, peer recommendations and social norms. In this case, the endorsements and social media promotions acted as strong **marketing stimuli**, directly shaping how consumers perceived the brand and influencing their decision to purchase.
2. **Internal Influences:** These are psychological processes within the consumer, such as motivation, attitudes and perception. The promotions may have altered consumer perception of the product's quality and created motivation linked to beauty, self-image or aspirational lifestyles, prompting purchase.
3. **Decision-Making Process:** Consumers often follow a sequence:
 - Problem recognition
 - Search for alternatives
 - Information seeking and evaluation
 - Final choice

The endorsements and promotions helped consumers recognise the product as a desirable solution, providing information and reducing perceived risk, leading to quicker and more confident decision-making.

4. **Post-Decision Processes:** If customers feel satisfied after purchase, they will repeat buying and recommend the brand to others, helping sustain the increased sales. If dissatisfied, they may experience dissonance and not return.

Understanding customer behaviour—its external and internal influences, decision-making stages and post-purchase reactions—is critical. It enables businesses to communicate effectively, design relevant marketing campaigns, deliver products that meet consumer needs and retain customers for repeat sales.

(b) The tech startup is responding to **internal strategic drivers**—the key elements within the organisation that shape its performance and strategic direction. Internal analysis involves assessing **strategic drivers**, which include:

1. **Industry and Markets:** The startup closely monitors its relative position in the industry and changing market dynamics. As user behaviour, platforms and technologies evolve, the startup adapts its model to stay aligned with shifting market expectations.
2. **Customers:** Changing user behaviour directly influences customer needs and preferences. Understanding these customers, their usage patterns and their value to the business drives the startup to update its offerings.
3. **Products/Services:** The startup modifies its business model to refine or expand its products/services in response to technological shifts and customer demands. This ensures relevance, competitiveness and differentiation in the market.
4. **Channels:** As new digital platforms emerge, the startup adjusts the channels through which it delivers its services—such as apps, web platforms or partner integrations—to reach customers effectively.

Therefore, the internal elements the firm is responding to are its key strategic drivers: industry & markets, customers, products/services and channels. These drivers help the organisation assess its current performance and make strategic decisions to stay competitive and aligned with emerging trends.

(c) To ensure smooth execution of the cost-saving strategy while enabling timely corrections and flexibility, *SunSip Beverages* can use the following **types of strategic controls**:

1. **Premise Control:** Ensures that the assumptions on which the cost-saving strategy is based—such as raw material prices, demand forecasts or logistics costs—remain valid. If assumptions change, the strategy can be adjusted quickly.
2. **Implementation Control:** Tracks whether the strategy is being executed as planned in manufacturing and warehousing. Regular progress reviews,

milestone checks and pilot testing help detect deviations early and initiate corrective actions.

3. **Strategic Surveillance:** Provides broad, continuous monitoring of the internal and external environment. It helps identify unexpected threats or opportunities—such as new competitors, technology changes or regulatory shifts—that may require strategy adaptation.
4. **Special Alert Control:** Activated in response to sudden, unexpected events (e.g., supply chain disruptions or economic shocks). It allows the company to respond quickly and revise the strategy when necessary.

By using **premise control, implementation control, strategic surveillance and special alert control**, the MD can ensure that the cost-saving plan is **properly monitored, deviations are corrected immediately and the strategy remains flexible** in a dynamic market.

2. (a) Ansoff's product market growth matrix (proposed by Igor Ansoff) is a useful tool that helps businesses decide their product and market growth strategy. With the use of this matrix, a business can get a fair idea about how its growth depends upon its markets in new or existing products in both new and existing markets.

The Ansoff's product market growth matrix is as follows:

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

Ansoff's Product Market Growth Matrix

Sky Chemical Industry can adopt market penetration, product development, market development or diversification simultaneously for its different products.

Market penetration refers to a growth strategy where the business focuses on selling existing products into existing markets. It is achieved by making more sales for present customers without changing products in any major way.

Market development refers to a growth strategy where the business seeks to sell its existing products into new markets. It is a strategy for company growth by identifying and developing new markets for the existing products of the company.

Product development refers to a growth strategy where business aims to introduce new products into existing markets. It is a strategy for company growth by offering modified or new products to current markets.

Diversification refers to a growth strategy where a business markets new products in new markets. It is a strategy by starting up or acquiring businesses outside the company's current products and markets.

As market conditions change overtime, a company may shift product-market growth strategies. For example, when its present market is fully saturated a company may have no choice other than to pursue new market.

- (b) In light of Michael Porter's Five Forces, new entrepreneurs often face significant barriers that restrain their keenness to enter an industry. These barriers increase the competitiveness of existing firms and discourage new entrants, impacting industry profitability.

Common barriers that may restrain new entrepreneurs include:

- (i) **Capital Requirements:** When a large amount of capital is required to enter an industry, firms lacking funds are effectively barred from the industry, thus enhancing the profitability of existing firms in the industry.
- (ii) **Economies of Scale:** Many industries are characterized by economic activities driven by economies of scale. Economies of scale refer to the decline in the per-unit cost of production (or other activity) as volume grows.
- (iii) **Product Differentiation:** Product differentiation refers to the physical or perceptual differences, or enhancements, that make a product special or unique in the eyes of customers.
- (iv) **Switching Costs:** To succeed in an industry, new entrant must be able to persuade existing customers of other companies to switch to its products. When such switching costs are high, buyers are often reluctant to change.

- (v) **Brand Identity:** The brand identity of products or services offered by existing firms can serve as another entry barrier. Brand identity is particularly important for infrequently purchased products that carry a high unit cost to the buyer.
 - (vi) **Access to Distribution Channels:** The unavailability of distribution channels for new entrants poses another significant entry barrier. Despite the growing power of the internet, many firms may continue to rely on their control of physical distribution channels to sustain a barrier to entry to rivals.
 - (vii) **Possibility of Aggressive Retaliation:** Sometimes the mere threat of aggressive retaliation by incumbents can deter entry by other firms into an existing industry.
3. (a) Any organisation may find the work of digital transformation challenging and overwhelming. To ensure that a digital transition is effective, change management is essential. Here are some pointers for navigating change during the digital transformation:
1. **Specify the digital transformation's aims and objectives:** What is the intended outcome? What are the precise objectives that must be accomplished? It will be easier to make sure that everyone is on the same page and pursuing the same aims if everyone has a clear grasp of the goals.
 2. **Always, always, always communicate:** It might be challenging for people to accept change and adjust to it. Ensure that you routinely and honestly discuss the objectives of digital transformation and how they will affect stakeholders, including employees, clients, and other parties.
 3. **Be ready for resistance:** Even when a change is for the better, it can be challenging for people to embrace it. Have a strategy in place for dealing with any resistance that may arise.
 4. **Implement changes gradually:** Changes should ideally be implemented gradually rather than all at once. In order to avoid overwhelming individuals with too much change at once, this will give people time to become used to the new way of doing things.
 5. **Offer assistance and training:** Workers will need guidance in the new procedures, software applications, etc.

In conclusion, effective completion of the massive project known as digital transformation depends on meticulous planning and change management. Digital

transformation efforts are more likely to fail without change management. Organizations can successfully integrate a new digital system by planning for and managing the changes that must take place. Any project involving digital transformation must include it.

- (b) **Channels** represent the **distribution system** through which organizations distribute their products or provide services to customers. They play a pivotal role in reaching target markets, maximizing sales, and establishing competitive advantages.

Channel analysis is important when the business strategy is to scale up and expand beyond the current geographies and markets. When a business plans to grow to newer markets, they need to develop or leverage existing channels to get to new customers. Thus, analysis of channels that suit one's products and customers is of utmost importance.

There are typically three channels that should be considered: sales channel, product channel and service channel.

- ◆ **The sales channel** - These are the intermediaries involved in selling the product through each channel and ultimately to the end user. The key question is: Who needs to sell to whom for your product to be sold to your end user? **For example**, many fashion designers use agencies to sell their products to retail organizations, so that consumers can access them.
- ◆ **The product channel** - The product channel focuses on the series of intermediaries who physically handle the product on its path from its producer to the end user. This is true of Australia Post, who delivers and distributes many online purchases between the seller and purchaser when using eBay and other online stores.
- ◆ **The service channel** - The service channel refers to the entities that provide necessary services to support the product, as it moves through the sales channel and after purchase by the end user. The service channel is an important consideration for products that are complex in terms of installation or customer assistance. **For example**, a Bosch dishwasher may be sold in a Bosch showroom, and then once sold it is installed by a Bosch contracted plumber.

4. (a) Vertically integrated diversification is a strategic approach in which a company expands its business operations into different stages of the production or distribution process within the same industry. This involves either forward integration or backward integration.

The key difference between forward and backward integration lies in the direction of expansion within the supply chain. **Forward integration moves towards the end consumer**, while **backward integration moves towards the source of raw materials or components**.

Forward integration allows companies to have **more control over distribution channels**, improve customer relationships, and capture a larger share of the value chain. In contrast, **backward integration helps** companies **secure a stable supply of inputs**, reduce dependency on suppliers, and potentially lower production costs.

Forward integration is often associated with activities such as retailing, marketing, and after-sales services, while backward integration is associated with activities such as manufacturing, sourcing, and procurement.

Both types of integration offer strategic advantages such as increased market power, cost efficiencies, and greater control over critical business processes. However, the decision to pursue forward or backward integration depends on factors such as industry dynamics, competitive landscape, and the company's core competencies and resources.

(b) **Functional-level managers** handle specific business functions such as HR, purchasing, product development, accounts, sales and customer service.

- They operate at the **bottom of the management hierarchy** and follow the instructions and guidelines issued by business and corporate-level managers.
- Though not responsible for the organisation's overall performance, they play a **major strategic role** by developing functional strategies that support the strategic objectives set at higher levels.
- They provide **crucial operational and customer-related information** that enables business- and corporate-level general managers to formulate realistic, practical and effective strategies.
- Because they work closely with **frontline staff and customers**, functional managers gain first-hand insights that may lead to new ideas and improvements, sometimes becoming major strategic initiatives for the company.
- They play an equally important role in **strategy implementation**, ensuring that corporate and business-level plans are executed effectively at the operational level.

OR

The Chief Executive Officer (CEO) position within XYZ Enterprises operates at the **Corporate Level**. This executive level is key in leading the overall direction, performance, and success of the entire organization. The CEO assumes a central role in shaping the company's strategic vision, overseeing diverse business sectors, and ensuring alignment with organizational goals.

Key Duties and Responsibilities of the CEO:

The CEO's role encompasses various strategic responsibilities at the Corporate Level, involving:

1. **oversee the development** of strategies for the whole organization.
2. **defining the mission and goals** of the organization;
3. **determining what businesses**, it should be in;
4. **allocating resources** among the different businesses;
5. **formulating and implementing** strategies that span individual businesses;
6. **providing leadership** for the organization;
7. ensuring that the corporate and business level strategies which company pursues are consistent with **maximizing shareholders wealth**; and
8. managing the **divestment and acquisition** process.

Given the diverse nature of XYZ Enterprises, including renewable energy solutions, organic skincare products, eco-friendly packaging, and smart home technologies, the CEO's responsibilities are tailored to navigate the unique challenges and opportunities presented by each sector. In conclusion, the CEO at the Corporate Level plays a critical role in guiding XYZ Enterprises strategically, ensuring cohesive leadership, and driving sustainable success across its diverse business domains.