

**Final New Syllabus  
Paper - 6 A  
Risk Management**

**MAY 2022**

Roll No. ....

Total No. of Case Study Questions – 5

Time Allowed – 4 Hours

*Ans  
25/05  
6:25 PM*

Total No. of Printed Pages – 24

Maximum Marks – 100

**QHR**

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

**The Question Paper comprises five case study questions.**

**The candidates are required to answer any four case study questions out of five.**

Answers in respect of Multiple-Choice Questions (MCQs) are to be marked on the OMR Answer Sheet as given on the Cover Page of the answer book.

Answer to MCQs, if written inside the descriptive answer book, will not be evaluated.

Candidates should answer the Case Study Questions as selected by them in totality i.e., MCQ as well as descriptive Question of the same Case Study Question.

Candidates are not permitted to answer MCQs of one Case Study Question and the descriptive questions of another Case Study Question and vice-versa.

Candidates may use calculator.

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**CASE STUDY : 1**

**INTRODUCTION**

Organic farming is a method of agricultural cultivation mainly using bio fertilisers and organic pest control materials. This concept has been developed mainly due to the realisation of environmental and health issues caused by the sustained use of chemical pesticides and fertilisers. Though this type of farming is ecologically supportive, the outputs from these farms are lower when compared to other regular farms, thereby pushing-up the prices of the products sold.

**FACTS OF THE CASE**

Fresh Farms Limited (FFL) converted to organic method of farming ten years ago and has earned a good name in the local market. It produces sugarcane, cotton, pulses, medicinal plants and herbs, fruits, vegetables, and millets.

FFL is aware that (i) the cost of production is more by 25%, than compared to that of regular farming and (ii) they cannot increase the prices of the farm outputs beyond a certain level. The revenue for last year ended 31.03.2021 stood at ₹ 30 Crores. The cost cutting measures were employed but did not produce desired results. In some instances, the customers expressed dissatisfaction that the fruits they ordered for the festive season did not arrive in time.

An initial analysis of the operations revealed that various processes could be streamlined; better efficiency could be achieved by following the standards and procedures followed globally in this type of farming.

The Managing Director (MD) explained to all the board members that FFL would strive to innovate by exploring into newer methods of cultivation and thereby increasing the profitability. He wanted the General Manager (GM) to prepare a report on the measures, risk factors and control measures to achieve the above objectives.

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FFL has small offices in five neighbouring countries. Exports of products are made to these countries and receivables included amounts due from some foreign buyers. It was noticed that two export consignments valued at ₹ 25 lakhs were returned by the customs officials of the respective countries as relevant rules applicable to such exports were not strictly followed and issued notices to FFL that if such practice continued in future, they would blacklist FFL.

FFL's management has made a proposal to sell its accounts receivable at a discount to Modern Finance Limited (MFL), a financing company. Negotiations with MFL are going on.

As on last year ended on 31.03.2021, FFL has 225 employees on its salary roll. Most of the staff lacked motivation and there was not much of co-ordination among them. FFL's manager **Mr. Shyam** stressed the need to adopt a systematic study of the various aspects of risk management. He wanted their executives to be aware of the potential risks and make them act proactively to achieve greater levels of efficiency.

For fulfilling the statutory compliance requirements of a limited company, the Statutory Auditor, M/s X and Y Associates, were doing an audit of Internal Controls over Financial Reporting. They made an exception to the conduct of one of the directors who withdrew ₹ 50 lakhs towards his personal drawings, without the specific approval of the board.

**Mr. Rohan**, the Farms Manager, is generating scenarios for making an analysis, based on the stressful situations and events happened in the history of FFL.

The risk management consultant, **Ms. Bose** emphasised the importance of adopting an integrated risk management approach and further suggested to conduct a comprehensive risk evaluation exercise. This task was given to **Mr. Abdul**, the Risk Manager of the company.

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Ms. Bose cautioned FFL to exercise more control over its cyber activities in relation to its direct online selling of farm produce to the customers as organisations are becoming more susceptible to cyber-attacks. After performing various calculations, she observed that probability cyber-attack occurring to the online trading portal of FFL is 7% and if it occurs, then the estimated loss would be ₹ 2 Crores and she recommended strengthening the cyber security.

In the background of these facts, you are requested to answer the following questions :

**Multiple Choice Questions**

Choose the most appropriate answer from the given options.

**2×5  
=10**

(1.1) In pursuance to Mr. Shyam's suggestion, if potential risks are communicated to the executive management, the same would most likely be considered under :

- (A) Risk Identification. (B) Risk Analysis.  
(C) Risk Assessment. (D) Risk Mitigation.

(1.2) In the task given to Mr. Abdul, he would not consider:

- (A) The importance of various activities to the business.  
(B) The amount of control that FFL have over the cyber risks.  
(C) Potential profits to the business of FFL.  
(D) Benefits or opportunities presented by the cyber risks to FFL.

(1.3) Which among the following would be the most important responsibility of M/s X and Y Associates, the statutory auditors while doing audit of Internal Controls over Financial Reporting ?

- (A) Ascertaining segregation of duties in processes.  
(B) Review of the Risk and Control Self-Assessment (RCSA) results.  
(C) Recommend to the board and adoption of risk assessment and rating procedures.  
(D) Disclosure of risk factors.

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(1.4) FFL's proposal to MFL would be known as:

- (A) Structural Method. (B) Private Insurance.  
(C) CDS contracts. (D) Factoring.

(1.5) In Mr. Rohan's task, he will generate the scenarios based on the:

- (A) Evaluation of the portfolio risk vulnerability.  
(B) Events that will cause movements in the relative risk factors.  
(C) Adverse risk factor movements.  
(D) Development of events which start from one set of assumptions.

**Descriptive Questions**

(1.6) The General Manager (GM) needs your inputs for the report requested by the MD. You are required to prepare a report and submit it to the GM. **5**

(1.7) What is an integrated risk management? Write a note on Key Quantitative Information pertaining to the year ended on 31.03.2021 to the management. **3**

(1.8) Briefly explain how other risks of FFL would contribute to reputational risks by drawing examples from the Case Study. **3**

(1.9) Discuss whether cyber-attacks on online platform of FFL be considered as single factor to determine its risk appetite and also explain the reasons for risk appetite to be integrated with the control culture of FFL. **4**

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## **CASE STUDY : 2**

### **FACTS OF THE CASE**

Innovative Agri Limited (IAL), based in NOIDA, is manufacturing and selling various agricultural tools, such as, sickle, axe, plough and various types of weeders for the past ten years. The revenue for the past three years is almost stagnant.

Mainly during October and November of every year, the farmers, especially in the northern part of the country burn their crop wastes. This is known as stubble burning and it causes a variety of problems – health problems to the public, environmental pollution, soil quality deterioration etc.

### **NEW PROPOSALS**

IAL wants to explore the possibility of commencing manufacturing Stubble Removing Machine (SMR), which will greatly reduce the ill-effects of stubble burning. Currently SMRs are being sold for anywhere between ₹ 7 lakhs to 20 lakhs in the market. IAL came across a technology, which would substantially reduce the selling price to ₹ 4.5 lakhs including a trailer that would be attached to SMR. The technology can be bought for a one-time payment of ₹ 50 lakhs.

IAL intends to manufacture SMR under 'Make in India' scheme. Towards meeting the cost of SMR manufacturing project, IAL has decided to approach a bank for a term loan for fifteen years. On being satisfied, after the detailed workings and explanations of the project manager, the bank agreed in-principle to sanction the loan. The loan officer of the bank, **Mr. Arun** analysed the internal factors affecting the credit risk of the bank while considering the loan proposal of IAL. To meet a portion of the cost of the project, IAL wants to sell some assets held in the form of market securities before their stated maturities and has entrusted this job to the Chief Financial Officer, **Mr. Ravi**.

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**Marks**

IAL is also having a proposal to manufacture and sell Plant Cutting Scissors. The estimated cost of the project is expected to be funded by the directors. The details of the project are as under:

| Sr. No. | Particulars              | Figures |
|---------|--------------------------|---------|
| 1       | Initial Capital Cost     | ₹ 5 Cr. |
| 2       | Annual unit sales (nos.) | 0.2 Cr. |
| 3       | Selling price per unit   | ₹ 120   |
| 4       | Variable cost per unit   | ₹ 60    |
| 5       | Fixed costs per year     | ₹ 1 Cr. |
| 6       | Discount Rate            | 7%      |

**OTHER OBSERVATIONS**

It was decided to improve the risk management system of IAL. **Mr. Raj**, the Internal Auditor was assigned the task of finding out the risk maturity level of IAL. He suggested to the management to consider forming a Risk Committee and an Audit Committee of the Board. He opined that (i) risk management of IAL would surely minimise the impact of risk on the business with the help of the Risk Committee and (ii) the Audit Committee would act on the terms of reference as specified by the Board and would primarily include evaluation of risk management systems including internal control system and internal audit.

The Managing Director (MD) requested Mr. Raj to explain to him the concepts of (i) Magnitude of the Risk, (ii) Risk Perception, (iii) Cognitive Psychology and (iv) Emotional Intelligence. It was also decided to hold periodic meetings with the management and the departmental heads to capture learning and develop related recommendations at the end of a major activity or engagement.

Based on the facts given above, you are requested to answer the following questions:

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**Multiple Choice Questions**

Choose the most appropriate answer from the given options.

**2×5  
=10**

(2.1) Mr. Raj would NOT refer to which of the following while conducting his assigned task ?

- (A) Risk appetite is defined and communicated across the organisation.
- (B) Implement key practices to achieve immediate, tangible results.
- (C) Control environment is strong including the tone from the top.
- (D) Business objectives are defined and communicated.

(2.2) Which of the following would be considered by Mr. Arun in his analysis ?

- (A) Fluctuation in interest rates.
- (B) Uncertainty associated with future level.
- (C) Ignoring the purpose for which loan was sought by IAL.
- (D) Fluctuation in Exchange Rates.

(2.3) While discharging the job entrusted to Mr. Ravi, which of the following risk would arise ?

- (A) Price Risk.
- (B) Yield Curve Risk.
- (C) Embedded Option Risk.
- (D) Reinvestment Risk.

(2.4) Which of the following is not a common sound practice that is followed in respect of formation of Audit Committee as suggested by Mr. Raj ?

- (A) It has a chair who is an independent director.
- (B) It includes members who are independent.
- (C) Is required to review and approve IAL's risk policies.
- (D) Is required to be a stand-alone committee.

(2.5) The periodic meeting to be held with the management and the various departmental heads would be called:

- (A) Problem resolution.
- (B) Clean wash.
- (C) Meet wash.
- (D) Hot wash.

**QHR**



(9)

**QHR**

**Marks**

**Descriptive Questions**

- (2.6) In the case of proposal for manufacturing of the Plant Cutting Scissors project, you are required to: **6**
- (1) Calculate NPV of the Project and
  - (2) Compute the impact on the project's NPV considering a 3 per cent adverse variance in each variable. Which variable is having maximum effect, consider the life of the project as three years ?

**Note :**

| Year             | 0     | 1     | 2     | 3     |
|------------------|-------|-------|-------|-------|
| PV Factor for 7% | 1.000 | 0.935 | 0.873 | 0.816 |

Show your workings.

- (2.7) Explain the risks you foresee and suggest remedial measures towards the same, in the proposal to manufacture SMR. **5**
- (2.8) What would be the explanations of Mr. Raj to MD on various concepts which he requested him to explain ? **4**

**CASE STUDY : 3**

**FACTS OF THE CASE**

XYZ Auto Limited (XYZ) is a reputed car manufacturing company having its manufacturing operations in South India. It's manufacturing units are located near the east coast and well connected by different modes of transport. It has its presence in the small car – petrol & diesel segments. The present capacity of XYZ is 60,000 units per annum. It also markets all the related spares and has established its own service centres.

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**P.T.O.**

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**QHR**

**Marks**

### **CHALLENGES FACED BY THE COMPANY**

With the opening up of Indian economy and "Make in India" initiatives, global companies started establishing their operations in India and which is resulting in stiff competition in the domestic markets for the Company. These new companies have brought in the state of the art technology, with enhanced features for their cars. The Central & State governments have also provided various tax benefits to such entities for setting up their plants in India, which had a significant cost advantage to the new entities.

Other challenges faced by the Company in its operations include:

(i) Non-availability of the Labour as more than 50% of this temporary labour force which moved to their home towns due to COVID-19 pandemic is yet to come back, (ii) change in the State government due to elections and likely change in government policies. (iii) shortage of semi-conductor chips is forcing the company to reduce the production levels. (iv) significant increase in the raw material prices, especially metals are impacting margins and (v) increase in cost of petroleum products is forcing customers to buy Electric cars instead of petrol & diesel cars.

### **FUTURE PLANS OF THE COMPANY**

XYZ is looking at modifying the design of the car and provide better features to meet the changing preferences of customers. An operational improvement team was set up to identify cost control measures and improve efficiencies in the production & supply chain activities. There is a plan to increase its annual capacity from 60,000 to 1,20,000 Units over the next three years. The additional capacity will be in electric car segment. This requires XYZ to set up a new production line. XYZ is planning to diversify into exports specifically in the electric car segment.

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**QHR**

**Marks**

The cash outflow for setting up the new production line is estimated at ₹ 150 Crores; ₹ 80 Crores and ₹ 20 Crores in the year 1, year 2 and year 3 respectively. The incremental cash flows and probability for various scenarios are given below :

| Year 3     |             | Year 4     |             | Year 5     |             |
|------------|-------------|------------|-------------|------------|-------------|
| Cash flows | Probability | Cash flows | Probability | Cash flows | Probability |
| ₹ Crores   |             | ₹ Crores   |             | ₹ Crores   |             |
| 60.00      | 0.50        | 75.00      | 0.40        | 105.00     | 0.55        |
| 70.00      | 0.30        | 85.00      | 0.25        | 120.00     | 0.25        |
| 80.00      | 0.15        | 95.00      | 0.20        | 130.00     | 0.15        |
| 90.00      | 0.05        | 105.00     | 0.15        | 145.00     | 0.05        |

The CFO is planning to avail a separate term loan for this project from the financial institutions.

### **OTHER REGULATORY MATTERS**

XYZ being a listed entity in India and is required to comply with all the listing agreement norms.

XYZ has junior team members responsible for internal audit and risk management activities and they report to the CFO of the Company. The CFO makes quarterly presentation to the Audit Committee and Risk Management Committee and shares internal audit and risk updates to the respective committees set up by the Board of Directors. During the recently held Board Meeting, the Board of Directors advised the management to establish, a robust Risk Management Process with enhanced focus on risk mitigation procedures and risk reporting requirements, considering the heightened business risks and the planned expansion activities.

**QHR**

**P.T.O.**

(12)

**QHR**

**Marks**

**ACTION TAKEN**

Based on these directives from the Board of Directors, the Management team has taken the following actions:

A new Chief Risk Officer (CRO) has been appointed by the Company. All the risk management team members were transferred to a newly created Risk Management Department and were asked to report to the CRO.

The newly appointed CRO has engaged an external firm to advise the Company, to establish a comprehensive Enterprise Risk Management Framework. After a detailed evaluation, the external firm has provided a comprehensive report to set up the Risk Management framework including the roles and responsibilities of the Risk Management team members and the Risk Management Committee. The report made few suggestions including categorisation of identified risks as per COSO Framework and ERM implementation, as covered in ISO 31000.

Based on the facts given above, you are requested to answer the following questions :

**Multiple Choice Questions**

Choose the most appropriate answer from the given options.

2×5  
=10

(3.1) The report by external firm suggested various categories of risks under the COSO framework. Which category of risks is not coming within the purview of COSO Framework ?

- (A) Inefficiency and non-effectiveness of Operations
- (B) Absence of key financial controls causing material errors in financial statements
- (C) Human factors as strikes and lock-outs by trade unions and negligence of employees
- (D) Non-compliance with laws and regulations

**QHR**

(3.2) The company has identified challenges faced by it. Amongst them external risks arise from events taking place outside the business functions. Which amongst the following is not considered as external risk ?

- (A) Factors leading to increase in raw material prices and changes in consumer preference.
- (B) Technological factors, unforeseen changes in the techniques of production or distribution resulting into technological obsolescence, etc.
- (C) Natural calamities such as floods, cyclone etc.
- (D) Change in Government resulting in changes in policies, impacting the sale of product in a particular state.

(3.3) Which risk management technique involving a financial analytic tool shall be used by the CFO to evaluate the incremental future cash flows and for computing the benefits from risk management actions against the costs of the risk consequences are:

- (A) Value at Risk.
- (B) Capital Budgeting.
- (C) Risk Score Cards.
- (D) Risk Heat Maps.

(3.4) A report on the management of significant risks of the organisation and assurance on these risks being managed within the acceptable limits as laid down by the Board of Directors is:

- (A) Risk report issued by the Chief Risk Officer.
- (B) Compliance report issued by the Compliance Officer.
- (C) Internal audit report issued by the Management Auditor
- (D) Statutory audit report issued by the Statutory Auditor.

(3.5) Risk management steps included in the report submitted by external firm covers the following activities (1) Identify the Risk (2) Monitoring and review the Risk (3) Evaluation the Risk (4) Analyse the Risk and (5) Treating the Risk. The sequence of step-by-step process to deliver a simple and effective risk management process is:

- (A) 1-4-3-5-2.
- (B) 1-2-3-5-4.
- (C) 1-3-2-4-5.
- (D) 1-4-5-3-2.

## Descriptive questions

- (3.6) What are the aspects covered in the report on the Risk Management Framework issued by the external firm, which are key for the successful implementation and effective functioning of Enterprise Risk Management, taking into account the current risks faced by XYZ Auto Limited ? 5
- (3.7) The CFO and CRO had a discussion with respect to the risks relating to financial reporting covered in the report during a meeting between Finance team and Risk management team members. Elucidate the risks under discussions. 5
- (3.8) Compute the Net Cash flows, from the expansion activities, taking into account the cash outflows and incremental cash inflows during the first five years of the project. You are required to evaluate the expected Net Present values for the incremental inflows while computed the net cash flows from the project. State the maximum cash flow required for the expansion project, upon summarising the cash flows at the end of each year. 5

Consider the following PV factors for computing the present value of cash inflows :

| PV Factors |        |
|------------|--------|
| Year 3     | 0.7722 |
| Year 4     | 0.7084 |
| Year 5     | 0.6497 |

**CASE STUDY 4****FACTS OF THE CASE**

An Indian IT Company (hereinafter referred as 'the Company') is engaged in providing software products and solutions to its clients. The Company specialises in digital transformation, under different platforms. The solutions include Artificial Intelligence, Machine Learning, Robotic Process Automation, Chatbots, Block Chain and Cyber Security intelligence.

The software company also engages in training the employees of its clients, in the journey of digital transformation. The approach adopted by the Company is an unique business model which combines the engineering and industry experience to provide intelligent solutions including (i) Consolidate various IT tools/software programs into a single platform, (ii) minimal design changes in the front end, enabling the users to continue operating the systems in seamless manner and (iii) In-built analytics to help the users in self-learning and exception reporting.

The Company provides software solutions to clients located in India and in foreign countries. The Company deploys teams to various projects and provides both on-site & off-shore services to its clients.

The Company is a listed company in India as well as in United States of America (USA) and is required to comply with the listing agreements of both the countries. The company has a well-established Financial Reporting and Risk Management Frameworks. The Company's operations are exposed to large number of business and operating risks.

The Company is also having a subsidiary company in USA, from where software products are procured from the local vendors and sold to various clients along with software solutions. The subsidiary company, also sells its products to the Indian Holding Company. The arrangement for these sales of products is such that the changes in exchange rates are linked to the selling price of the products, either upwards or downwards.

**ISSUES IDENTIFIED**

The Risk Management team along with the business teams carries out Country Risk Assessment and also evaluates risks associated with specific projects in each country. On a quarterly basis, the Chief Risk Officer (CRO) makes a presentation to the Risk Management Committee with regard to the process followed, tools adopted and the results of such country risk assessments.

The issues identified are:

- (1) A project team of 25 members was deputed by the Company for providing on-site solutions to one of its client in USA. The team was on deputation for two years. Salaries and other related expenses for providing on-site solutions were paid in US Dollars by the Company. After a period of one year, couple of team members left the Company and taken employment in other Company for better career prospects in Canada. The Company was not ready to accept their resignations and these employees had challenges for getting relieved. After multiple rounds of discussions, the Company finally relieved them, after making certain deductions, as per the employment terms, from their full and final settlements.

These employees after getting relieved and joining the new Company have raised certain issues relating to the work ethics & experiences of the Indian IT Company in public forum and social media, which affected the morale of other team members who are continuing to work at the project site.

- (2) The Company also provides on-site software services to its clients in the Middle-East. However, due to repeated terror attacks near the office of the Company and at residential colonies where its staff resides, the Company has decided to exit from that country and started providing off-shore services from India.



(3) Similarly, another team was working in an African country. The United States of America & European Union, have suddenly, imposed financial sanctions against the African country and restricted all financial transactions in US \$. This would affect the collections of dues of the Company from the clients located in the African country. However, the Company, due to effective risk management practices, based on triggering events, has sold the receivables to another party located in Europe at a discount.

(4) The Company has exposure to currencies of different countries. 80% of the Company's revenues are from clients situated outside India. The company takes forward & other hedging instruments to manage the net currency risks.

Based on the facts given above, you are requested to answer the following questions :

#### Multiple Choice Questions

2×5  
=10

(4.1) Adverse publicity regarding an entity's practices will lead to a loss of revenue and leads to litigation. The ex-employees view posted on social media about the Company's work ethics is affecting the work culture of the existing employees. Any such event which is detrimental to the business of the entity is considered as:

- (A) Reputation risk. (B) Strategic Risk.  
(C) Business Continuity risk. (D) Governance risk.

(4.2) Exiting the activities which are giving rise to Business Risk by way of either exiting the service line or exiting the countries, or declining the expansion to a new geography or selling the current operations in a specific country, is the following type of risk response:

- (A) Reduce. (B) Avoid.  
(C) Share. (D) Accept.

(18)

**QHR**

**Marks**

(4.3) The purpose of Risk Evaluation by the Company at the Board Level is not to :

- (A) Identify the probabilities of failures and threats.
- (B) Calculate the exposure of failures and threats.
- (C) Identify the hiring requirements of the Company for specific projects.
- (D) Make control recommendations keeping the cost benefit analysis in mind.

(4.4) If the company has receivables of USD 50,000 and payables of ₹ 40,000, which of the following statement is not correct ?

- (A) Their settlement will affect the company's cash flow.
- (B) It is not subject to transaction exposure.
- (C) If the dollar appreciates relative to rupee, a cash gain occurs.
- (D) If the dollar depreciates relative to rupee, a cash loss occurs.

(4.5) The Company sold its accounts receivable for one of its clients from the African country, to a third party located in a European country at a discount, to hedge the country risk and to facilitate timely recovery of over dues. This method of financing is considered as:

- (A) Bill discounting.
- (B) Packing credit.
- (C) Factoring.
- (D) Cash credit.

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(19)

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**Marks**

**Descriptive questions**

- (4.6) Under the integrated reporting adopted by the Company, describe the matters covered with respect to the Company's governance structure to support its ability to create value in the short, medium and long term. **5**
- (4.7) Explain the procedures adopted by the business teams and risk management team of the Company, for carrying out the Country risk assessment. Also list the tools available for carrying out such assessment. **5**
- (4.8) Explain briefly the various internal techniques adopted by the company to manage exposure to the foreign currency dues, citing examples from the Case Study. **5**

**CASE STUDY 5**

**FACTS OF THE CASE**

Robin is the managing director of Style Limited which was incorporated by his father twenty years back. The Company is in garment retail business and has a store in Pune. The store did not show expected growth in the initial years. However, when Robin took over as Managing Director, the Company has shown consistent profit during the past ten years. Robin believes that his store is one of the best managed in the city and he is considering now opening several new stores.

**FUNDING REQUIREMENTS**

When Robin's father started the store, most of the equity was financed by him and the remaining financing was arranged from personal loans from friends and family members. In order to open new stores Robin needs a bank loan. The bank will examine financial statements. Robin has asked you to analyse his financials.

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**P.T.O.**

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**QHR**

**Marks**

For this purpose he has also gathered relevant information of a close competitor who is in the same business for the last twenty five years. Although Robin has tabulated some information as given below, he needs your support in calculating other missing figures.

| <b>Particulars</b>     | <b>Style Ltd.'s Store</b> | <b>Competitor</b> |
|------------------------|---------------------------|-------------------|
| Revenue                | INR 2,000 lakhs           | INR 2,500 lakhs   |
| Net Income             | INR 60 lakhs              | -----             |
| Return on Equity (ROE) | 22%                       | -----             |
| Net Profit Margin      | 3%                        | 6%                |
| Asset Turnover         | 2                         | 2                 |
| Equity multiplier      | -----                     | 2                 |
| Debt Equity Ratio      | 2                         | -----             |

In addition to the above, the other key issue with which Robin is confronted with is determining appropriate level of current asset. He wants your input on the key factors that need to be considered for this purpose which he agreed to do so in the next meeting.

Recently one of his friends has advised Robin to revise credit payment period and receivable period in a manner that would increase value of Style Limited but Robin is also concerned about the asset-liability mismatch. In the next meeting he wants your inputs on the asset-liability mismatch.

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(21)

**QHR**

**Marks**

### **MANAGEMENT ISSUES**

As the level of operations is expected to significantly grow in the coming years, Robin has planned to have a robust risk management systems and procedures. Currently it is being done in silos and also he is worried about the risk culture. There is no risk strategy in writing and also risk appetite statement has not been prepared and hence decisions are made without understanding the risk. The internal auditors have also pointed out number of irregularities with respect to dealing with the suppliers, customer management, inventory management, hiring of staff and response management. Currently, reward and consequences are not aligned and hence there is a tendency amongst employees to be ignorant about risk. Reinforcing risk culture is the top most agenda at this moment. Robin has approached you to take suggestions highlighting ways to reinforce risk culture in Style Limited.

### **EXPLORING OVERSEAS MARKETS**

Robin has extensive experience of Moscow & Russia markets and therefore, exploring the possibilities of opening one store in Moscow. He sees a huge opportunity there especially after recent conflict with Ukraine as most of the international brands have closed their operations. However, this decision would depend upon the analysis of related risks in opening a store in Moscow. Robin is looking your inputs on this account and also wants to know how Delphi technique can be used for political risk analysis purpose.

**QHR**

**P.T.O.**

**ACQUISITION PROPOSAL**

Robin is also evaluating an opportunity to acquire a company named Start Ltd. which is in garment manufacturing. He has hired a registered valuer, Mr. Samal, to carry out valuation of equity shares of Start Ltd. The value per equity share of Start Ltd. as estimated by Mr. Samal is INR 1250. Before committing for the acquisition of Start Ltd. Robin wants to fully grasp the risk appetite and risk aversion. He also wants your help in estimating risk of bankruptcy of Start Ltd. He has gathered the following information for this purpose.

|   |                 |   |                 |
|---|-----------------|---|-----------------|
| Equity<br>1000 (Face value: INR<br>10 each) | INR<br>10,000   | Goodwill                                  | INR<br>20,000   |
| Retained Earnings (RE)                      | 86,750          | Net Property Plant and<br>Equipment (PPE) | 2,20,000        |
| Deferred Tax Liability                      | 15,250          |   |                 |
| Long-Term Debt                              | 1,80,000        | Current Assets                            | 1,60,000        |
| Total Current Liabilities<br>(CL)           | 1,20,000        | Other Assets                              | 12,000          |
| <b>Total</b>                                | <b>4,12,000</b> | <b>Total</b>                              | <b>4,12,000</b> |

Last reported EBIT is INR 1,10,000 and Revenue is INR 9,00,000.

Based on the facts given above, you are requested to answer the following questions :

(23)

**QHR**

**Marks**

**Multiple Choice Questions**

**2×5  
= 10**

- (5.1) Which one of the following would be considered by you while deciding the appropriate level of current assets of Style Ltd ?
- (A) A trade-off between equity and debt.
  - (B) A trade-off between short-term loan and long-term borrowing.
  - (C) A trade-off between profitability and risk.
  - (D) A trade-off between current assets and total asset.
- (5.2) Robin wants to ensure that policy related to working capital management should not expose Style Ltd to the risk of insolvency. In your opinions which of the following asset-liability mix would lead to the greatest risk of insolvency ?
- (A) Lowering current liabilities and increasing current assets.
  - (B) Increasing both current assets and current liabilities.
  - (C) Exchanging short-term debt with equity.
  - (D) Increasing current liabilities, decreasing current assets and reducing long-term debt.
- (5.3) A junior in your office has prepared a draft for your reference highlighting important points about risk appetite and risk aversion which he believes would be useful while preparing final notes for Robin. Which one of the following statement prepared by your junior is not correct ?
- (A) Risk appetite changes over time as it is typically subject to cyclical fluctuations.
  - (B) Risk aversion is relatively time-invariable degree of defensive positioning in terms of investment.
  - (C) The sum total of risk appetite and risk aversion is equal to one.
  - (D) Risk aversion reflects the underlying attitude to all types of financial risk whereas can be subject to sharp short-term volatility.

**QHR**

**P.T.O.**

(24)

**QHR**

**Marks**

(5.4) Which of the following combination of major risks that you would like to cover in your analysis which would help Robin in making decision about opening a store in Moscow ?

- (A) Financial, Regulatory and Political.
- (B) Political, Financial and Accounting.
- (C) Management, Cyber and Information.
- (D) Management, Ethical and Political.

(5.5) Robin has asked you to use the Delphi technique for political risk analysis for evaluation of decision regarding opening a store in Moscow. In your opinion which one of the following is correct with respect to use of Delphi technique for political analysis ?

- (A) Visiting Moscow and making micro analysis.
- (B) Using services of an expert from Moscow.
- (C) Gaining the response of a panel of geographically dispersed independent experts.
- (D) Delphi technique is a quantitative technique of risk analysis.

**Descriptive Questions**

(5.6) Using the data tabulated by Robin you are required to calculate the missing figures. Show your working. **5**

(5.7) Based on the data given about Start Ltd., what would be your prediction about the bankruptcy in a short-term ? **5**

(5.8) As desired by Robin what would be your suggestions for reinforcing risk culture in Style Ltd. Robin also wants you to prepare a note on the role of the board and senior management in promoting sound risk culture. **5**

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**QHR**