

**Mock Test Paper - Series I: July 2025**

**Date of Paper: 26<sup>th</sup> July, 2025**

**Time of Paper: 10 A.M. – 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.***

ABC Ltd., a high-end furniture manufacturer specializes in classic, handcrafted designs that combine style and utility. The company, which was founded with a passion for quality craftsmanship and environmentally friendly methods, provides a wide variety of furniture for homes and workplaces, such as dining tables, living room sets, bedroom collections, and custom-built items.

However, lately the company has been facing delays in product delivery due to limited storage and inefficient distribution. To enhance its supply chain and improve customer satisfaction, the company has decided to establish two strategically located warehouses. This move aims to reduce delivery time, optimize inventory management, and streamline logistics operations.

ABC Ltd. previously relied on a single warehouse near its production facility, causing bottlenecks in order fulfillment and increasing transportation costs for distant markets. After analyzing demand trends and logistics inefficiencies, the company plans to set up one warehouse – Baton either in the northern region, closer to key suppliers, and or in the southern region- Katon, near major customer hubs.

The further details of either of the two warehouses to be introduced are as follows:

**Warehouse Baton**

The Initial cost of the warehouse is ₹ 40,00,000 and its useful life is 5 years. It's annual net savings before tax is projected as follows:

Year 1: ₹ 12,00,000

Year 2: ₹ 14,00,000

Year 3: ₹ 10,00,000

Year 4: ₹ 10,00,000

Year 5: ₹ 13,00,000

Further, the Mid-life major maintenance is expected to be ₹ 5,00,000 in Year 3, salvage value - ₹ 5,00,000 and Shutdown and disposal cost - ₹ 1,00,000 in Year 5.

**Warehouse Katon:**

The Initial cost of the warehouse is ₹ 60,00,000 and its useful life is 8 years. It's annual net savings before tax is projected as follows:

Year 1–2: ₹ 10,00,000

Year 3–6: ₹ 15,00,000

Year 7–8: ₹ 12,00,000

**Maintenance cost details:**

Year 4: ₹ 2,00,000

Year 7: ₹ 3,00,000

Further, the salvage value is expected to be ₹ 8,00,000, and shutdown and disposal cost to be ₹ 1,50,000 in Year 8. The company is subject to tax rate of 30% and considers 10% to be an appropriate after-tax cost of capital. The company follows straight-line method of depreciation.

You are being a finance manager, has been asked the following questions:

- (i) The NPV of Baton, factoring in tax shields from depreciation and expenses is .....
- (a) ₹ (79,590)
  - (b) ₹ (53,365)
  - (c) ₹ (45,365)
  - (d) ₹ (36,834)

- (ii) The Equivalent Annual Cost (EAC) of Baton is .....
- (a) ₹ (12,310)
  - (b) ₹ (14,071)
  - (c) ₹ (16,834)
  - (d) ₹ (18,535)
- (iii) The NPV of Katon, factoring in tax shields from depreciation and expenses is .....
- (a) ₹ (41,667)
  - (b) ₹ (6,91,666)
  - (c) ₹ (8,41,667)
  - (d) ₹ (9,62,789)
- (iv) The Equivalent Annual Cost (EAC) of Katon is .....
- (a) ₹ (7810)
  - (b) ₹ (1,29,646)
  - (c) ₹ (1,57,763)
  - (d) ₹ (7,235)
- (v) Which among the following is correct?
- (a) Warehouse Baton should be chosen as it has the lower Equivalent Annual Cost despite having higher upfront cost.
  - (b) Warehouse Katon should be chosen as it has the lower Equivalent Annual Cost despite having higher upfront cost.
  - (c) Warehouse Baton should be chosen as it has the lower Equivalent Annual Cost and upfront cost.
  - (d) Warehouse Katon should be chosen as it has the lower Equivalent Annual Cost and upfront cost. **(5 x 2 = 10 Marks)**
- (vi) A company has a debt-to-equity ratio of 2:1. It plans to raise additional capital such that the overall debt-to-equity ratio becomes 1:1. Assuming the company raises only equity for this purpose, by what percentage must the equity increase?
- (a) 50%
  - (b) 100%

- (c) 200%
- (d) 300% **(2 Marks)**
- (vii) A company has annual credit sales of ₹ 6,00,00,000. The average collection period is 90 days. A factor offers to buy the receivables with a 2% commission. The factor will advance on receivables to the company at an interest rate of 18% per annum after withholding 10% as reserve. Calculate the amount of advance to be paid assuming 360 days in a year.
- (a) ₹ 1,32,00,000
- (b) ₹ 1,28,92,500
- (c) ₹ 1,40,38,500
- (d) ₹ 1,26,06,000 **(2 Marks)**
- (viii) A company's current market price per share is ₹ 200. It just paid a dividend of ₹ 10, and dividends are expected to grow at a constant rate of 5% per annum. What is the cost of equity as per the Dividend Discount Model (DDM)?
- (a) 10.5%
- (b) 5.0%
- (c) 11.0%
- (d) 10.25% **(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) Profitable FMCG company PQR Ltd. is examining its dividend policy considering potential future investment opportunities. The company's objective is to maintain a good financial strategy by balancing market valuation, financing requirements, and shareholder expectations.
- Following information has been provided:
- Equity Share Capital: ₹ 20,00,000 (₹ 10 per share fully paid)
- Reserves and Surplus: ₹ 30,00,000
- Earnings After Tax (EAT): ₹ 10,00,000
- Return on Investment (r): 15%

Cost of Equity (Ke): 12%

Market Price per Share: ₹80

Number of Equity Shares: 2,00,000

Current Debt-Equity Ratio: 0.5:1

Planned Investment Requirement: ₹12,00,000 (next financial year)

The Board of Directors of the company is considering three dividend payout options. Option A – 100% payout; Option B – 50% payout; and Option C – 0% payout.

Further, because of the market conditions, no fresh equity will be raised. Any financial shortage must be covered by debt, but not more than a 1:1 debt-to-equity ratio. The corporate tax rate is 30%. Interest on debt is 10% per annum.

You are required to:

- (i) Calculate the market price per share under each dividend payout option using Walter's Model.
  - (ii) Evaluate the feasibility of internally funding the ₹ 12,00,000 investment under each payout scenario.
  - (iii) Determine the revised Debt-Equity Ratio assuming the shortfall is met through borrowing if the company adopts a 50% payout.
  - (iv) Recommend the most suitable dividend policy. **(5 Marks)**
- (b) Gagan Pvt. Ltd. gives you the following information relating to the year ending 31<sup>st</sup> March, 2025:

(1) Current Ratio	2.5 : 1
(2) Debt-Equity Ratio	1 : 2
(3) Return on Total Assets (After Tax)	15%
(4) Total Assets Turnover Ratio	2
(5) Gross Profit Ratio	25%
(6) Stock Turnover Ratio	5
(7) Net Working Capital	₹ 15,00,000
(8) Fixed Assets	₹ 30,00,000
(9) 1,80,000 Equity Shares of	₹ 10 each

- (10) 60,000, 10% Preference Shares of ₹ 10 each  
(11) Opening Stock ₹ 16,00,000

You are required to CALCULATE:

- (a) Quick Ratio  
(b) Fixed Assets Turnover Ratio  
(c) Proprietary Ratio  
(d) Earnings per Share **(5 Marks)**

- (c) Wint Limited is a mid-sized manufacturing company specializing in industrial equipment parts. It operates on a just-in-time procurement strategy but has recently faced delays in raw material deliveries due to supply chain disruptions in global markets. To maintain production continuity, the management has decided to maintain slightly higher inventories and build in a contingency reserve.

The following forecasted financial information is provided for the year ending 31<sup>st</sup> March, 2025:

Particulars	Balance as at 31 <sup>st</sup> March, 2025 (₹ in lakh)	Balance as at 31 <sup>st</sup> March, 2024 (₹ in lakh)
Raw Material	845	585
Work-in-progress	663	455
Finished goods	910	780
Receivables	1,755	1,456
Payables	923	884

Additional details for the year ending 31<sup>st</sup> March, 2025:

- Annual purchases of raw materials (on credit): ₹ 5,200 lakh
- Annual cost of production: ₹ 5,850 lakh
- Annual cost of goods sold (COGS): ₹ 6,825 lakh
- Annual operating cost (includes admin, manufacturing, distribution): ₹ 4,225 lakh
- Annual sales (on credit): ₹ 7,605 lakh

The finance team is currently evaluating the company's working capital requirement due to a planned expansion and potential volatility in receivables collection caused by credit extensions to new clients.

Management wants to set aside a 10% contingency reserve in the working capital to deal with unforeseen cash flow constraints (e.g., delayed collections, inventory build-up, or supplier hold-ups).

Assume one year = 365 days.

You are required to:

- (i) Calculate the Net Operating Cycle Period (in days).
- (ii) Determine the Number of Operating Cycles in the year.
- (iii) Calculate the Working Capital Requirement including a 10% contingency reserve. **(5 Marks)**

2. (a) Majestic Ltd., a manufacturing company, is evaluating its financial performance and considering an expansion plan. The financial controller provides the following information for the financial year 2025:

Equity Share Capital	₹ 10,00,000 (₹ 10 per share)
Retained Earnings	₹ 10,00,000
12% Debentures	₹ 41,66,667
EBIT	₹ 20,00,000
Interest Expense	₹ 5,00,000
Contribution Margin Ratio	40%
Tax Rate	30%
Operating Leverage	2.5
Financial Leverage	1.333
Combined Leverage	3.333
Working Capital	20,00,000
Current Ratio	2
Fixed Asset Turnover Ratio	3

The company is now considering an expansion project costing ₹ 25,00,000. It anticipates the following changes post-expansion in 2026:

- (i) Sales are expected to increase by ₹50,00,000.
- (ii) Variable costs will constitute 55% of sales.
- (iii) Additional fixed costs due to expansion are ₹ 10,00,000.

The company is evaluating two financing options for the expansion:

Option 1: Raise ₹ 25,00,000 by issuing new equity shares at ₹ 10 each.

Option 2: Raise ₹ 25,00,000 by issuing new debt at 12% interest.

From the above information, you are required to:

- (1) Prepare the Income Statement and Balance Sheet of 2025 based on the data provided. **(3 Marks)**
  - (2) Compute the EPS under each financing option. **(2 Marks)**
  - (3) Compute the Operating Leverage, Financial Leverage and Combined Leverage of both the financing options. **(2 Marks)**
  - (4) Recommend the best financing option based on the EPS and impact of leverage giving reasons. **(1 Mark)**
- (b) What is venture capital financing? Briefly describe its characteristics. **(2 Marks)**
3. (a) A company issues:

- 15% convertible debentures of ₹ 100 each at par with a maturity period of 6 years. On maturity, each debenture will be converted into 2 equity shares of the company. The risk-free rate of return is 8%, market risk premium is 16% and beta of the company is 1.20. The company has paid dividend of ₹ 13.38 per share. Five years ago, it paid dividend of ₹ 10 per share. Flotation cost is 6% of issue amount.
- 5% preference shares of ₹ 100 each at premium of 10%. These shares are redeemable after 10 years at par. Flotation cost is 5% of issue amount.

Assuming corporate tax rate is 40%.

- (i) CALCULATE the cost of convertible debentures using the approximation method.

(ii) Use YTM method to CALCULATE cost of preference shares. **(5 Marks)**

(b) The following data relates to two companies belonging to the same risk class:

<b>Particulars</b>	<b>A Ltd.</b>	<b>B Ltd.</b>
Expected Net Operating Income	₹ 19,00,000	₹ 19,00,000
12% Debt	₹ 57,00,000	-
Equity Capitalization Rate	-	19%

REQUIRED:

(a) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming no taxes as per M.M. Approach.

(b) Determine the total market value, Equity capitalization rate and weighted average cost of capital for each company assuming 40% taxes as per M.M. Approach. **(5 Marks)**

4. (a) A finance executive of XYZ company claims that "Increasing the firm's current ratio by accumulating more inventory is a sound strategy for improving working capital efficiency."

As a financial analyst, do you agree with the statement? Justify your answer using relevant working capital concepts, and explain the potential risks associated with the strategy mentioned. **(4 Marks)**

(b) Write a short note on financial distress and insolvency. **(4 Marks)**

(c) A company is looking to raise funds through an instrument that provides fixed periodic returns to the investor but does not grant voting rights. Interestingly, this instrument is considered to have characteristics of both equity and debt. It ranks above equity shareholders but below debenture holders in case of liquidation.

Which type of financing instrument should the company use and why? **(2 Marks)**

**OR**

(c) A firm is managing its finances and aims to ensure that it has access to funds for the long term. It evaluates various sources like equity, debt, retained earnings, and also credit offered by suppliers.

Which of the above mentioned sources should be classified as a short-term source of finance and why by mentioning its characteristics in brief? **(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 answers.*

**PART I – Case scenario based MCQs (15 Marks)**

**1. (A) (Compulsory)**

1. (A) Introducing "UrbanScape Developers", a new-age contemporary real estate developers, reshaping urban landscapes with groundbreaking projects across three dynamic Indian cities of Mumbai, Bangalore, and Delhi.

In the bustling metropolis of Mumbai, UrbanScape is coming up with "CitySquare Mall," a futuristic retail destination poised to redefine shopping experiences. Boasting state-of-the-art facilities and a modern mix of brands, it promises to be a benchmark of today's retailing, attracting shoppers from across the globe.

In Bangalore, UrbanScape is shaping up "GreenVista Residency," an eco-conscious housing society that sets new standards in sustainable living. Nested in the middle of lush greenery and equipped with eco-friendly amenities, it offers residents a peaceful blend of luxury and environmental responsibility.

Meanwhile, in the vibrant capital city of Delhi, UrbanScape is building "MetroBiz Institute", a global-desi MBA college dedicated to nurturing the leaders of tomorrow. With innovative curriculum, industry-aligned programs, and world-class faculty, it aims to cultivate a new generation of business visionaries and changemakers.

However, despite these visionary projects, UrbanScape is facing challenges in attracting pre-bookings from potential customers. A market study revealed that high interest rates and soaring gold prices have created an environment where individuals are hesitant to invest in real estate, opting instead for more liquid assets.

To tackle this issue smartly, UrbanScape initiated strategic collaborations with leaders in the banking sector. Leveraging their influence and expertise, they strategized an effort to lobby for interest rate subsidies targeted towards new-age technology-based real estate developers like themselves. By aligning themselves strategically and positioning their cause as essential for driving economic growth and urban development, they aim to generate decent demand and incentivize investment in the real estate sector.

Furthermore, they recognize the shifting dynamics of consumer behavior and preferences towards spending more on travel and experiences. In response, they are adopting a proactive approach to engage potential buyers in innovative ways. They are launching an immersive, AI-based website that offers virtual experiences of their projects. Prospective buyers can explore apartments, wander through the mall's corridors, or attend virtual classes at the MBA college - all from the comfort of their living rooms. This revolutionary platform not only increases customer engagement but also generates significant word-of-mouth marketing, as impressive visitors share their experiences with friends and family.

With a comprehensive strategy in place, UrbanScape Developers is navigating the ever-evolving real estate landscape with confidence and foresight. As they continue to shape the urban areas of India's most dynamic cities, the future holds endless possibilities for its visionary endeavors.

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

- (i) To evaluate how projects like "CitySquare Mall" and "MetroBiz Institute" are positioned relative to competitors in terms of market share and business focus, which tool would help UrbanScape make informed strategic decisions?
- (a) Strategic Group Mapping
  - (b) SWOT Analysis
  - (c) Product Life Cycle
  - (d) PESTLE Analysis **(2 Marks)**
- (ii) To understand how rising interest rates and increasing gold prices are impacting buyer behavior in real estate, which analytical tool should UrbanScape use to assess macro-environmental factors and adapt its strategy accordingly?
- (a) Value Chain Analysis
  - (b) GE Matrix
  - (c) PESTLE Analysis
  - (d) Ansoff Matrix **(2 Marks)**
- (iii) UrbanScape introduced an AI-powered website offering immersive experiences of their properties to engage tech-savvy customers who prefer virtual interactions. What strategic benefit is UrbanScape most likely

aiming to achieve through this technological investment?

- (a) Compliance with government policy
- (b) Differentiation and enhanced customer experience
- (c) Reduction in production costs
- (d) Price leadership strategy **(2 Marks)**

(iv) UrbanScape's eco-friendly housing project and emphasis on innovation show a strong internal culture of sustainability and forward-thinking. Which component of the 7S Framework does this reflect?

- (a) Strategy
- (b) Structure
- (c) Shared Values
- (d) Skills **(2 Marks)**

(v) After receiving poor pre-booking responses, UrbanScape re-evaluated its economic assumptions and initiated lobbying efforts. This indicates use of which control type to verify the ongoing validity of external assumptions?

- (a) Implementation Control
- (b) Premise Control
- (c) Feedback Control
- (d) Strategic Surveillance **(2 Marks)**

**(B) Compulsory Application Based Independent MCQs**

(i) StarLite Electronics noticed changing consumer preferences for energy-efficient appliances. It invested in R&D to develop such products. Months later, a new government regulation mandated energy efficiency, which it easily complied with. Which strategies best describe StarLite's approach?

- (a) Proactive and Reactive
- (b) Only Reactive
- (c) Cost leadership
- (d) Defensive strategy **(2 Marks)**

(ii) PrintPro's laser printer division has stable revenue and a high market share, but operates in a slow-growing market. It generates steady cash

with minimal investment needs. Where does this division fall in the BCG Matrix?

- (a) Dog
  - (b) Question Mark
  - (c) Star
  - (d) Cash Cow **(2 Marks)**
- (iii) Which of the following is a limitation of strategic management?
- (a) It sometimes provides a clear roadmap for the organization
  - (b) It disregards allocating resources effectively
  - (c) It can be time-consuming and complex
  - (d) It doesn't ensure immediate results **(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) ABC Corporation, a global technology company, is known for its innovative products and solutions. The company's strategic vision emphasizes being at the forefront of technological advancements and providing cutting-edge solutions to improve people's lives with a strong commitment to integrity and accountability in all its operations. Their mission is to create products that are user-friendly, sustainable and contribute positively to society. Values can be derived by analysing the vision and mission statements. Based on the scenario, what are the values of ABC Corporation? **(5 Marks)**
- (b) ZymaTech Pvt. Ltd., a growing player in the smart home devices industry, seeks to increase its market share amidst strong competition from HomeEdge, AutoNest and IntelliSpace. Each competitor holds a distinct edge—brand loyalty, pricing & distribution reach and AI driven product innovation respectively. However, IntelliSpace faces criticism regarding post-sales service. ZymaTech, while offering decent product quality, struggles with brand visibility and customer service. As a strategist at ZymaTech, how would Mr. Anoj Dass apply the steps involved in understanding the competitive landscape to help the company build a sustainable competitive advantage? **(5 Marks)**

- (c) ZephyrFit Pvt. Ltd., a startup founded by three young business graduates, launched a fitness app offering diverse wellness content, including regional formats like Kerala Ayurveda, Punjabi workouts and local diet plans. Initially popular, the company later discovered that certain regional segments incurred high costs but had low user engagement. To improve profitability, the leadership sold the rights to this underperforming content and halted further development in these areas. Instead, they focused on widely accessed and cost-effective offerings. Identify and explain the type of corporate strategy adopted by the leadership of ZephyrFit Pvt. Ltd. in this situation. **(5 Marks)**
2. (a) "Each organization must build its competitive advantage keeping in mind the business warfare. This can be done by following the process of strategic management." Considering this statement, explain major benefits of strategic management. **(5 Marks)**
- (b) "International development is expensive and challenging". In the context of the statement, explain the internationalization of business and the steps involved in such strategic planning. **(5 Marks)**
3. (a) Write a short note on the Key Strategic Drivers of an organization. **(5 Marks)**
- (b) Differentiation between Strategic Planning and Operational Planning. **(5 Marks)**
4. (a) Explain the 'product market growth matrix' as propagated by Igor Ansoff as a device for identifying growth opportunities for the future. **(5 Marks)**
- (b) Explain the pointers for navigating change during digital transformation.

**OR**

- (b) Aarav Textiles Pvt. Ltd., a global apparel company, faced a revenue decline due to a pandemic. To sustain operations, it outsourced key functions like production, logistics and customer support. Now, it functions with a lean head office digitally connected to dispersed units. What organisational structure is this? Discuss its features and disadvantages. **(5 Marks)**