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 5^{th} 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):

1. Calculate the profit or loss for the current year

   (a) ₹ 1,52,500

   (b) ₹ 1,42,500

   (c) ₹ 1,38,500

   (d) ₹ 1,32,275

2. Calculate the Return on Equity (ke) for the firm.

   (a) 15.99%

   (b) 15.90%

   (c) 15.00%

   (d) 14.95%

3. What us 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)**