

Mock Test Paper - Series II: April, 2026

Date of Paper: 13th April, 2026

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

Orion Manufacturing Ltd., a mid-sized engineering company, is facing increasing competition and rising labour costs. To improve efficiency and reduce dependency on manual labour, the management is considering automating a part of its production process.

After preliminary research, the company has shortlisted two advanced machines: Model X-Pro and Model Z-Elite. Both machines can perform the same operations currently handled by workers, but differ in cost and efficiency levels.

The finance team has gathered the following data to evaluate the investment decision.

Particulars	Model X-Pro	Model Z-Elite
Cost of Machine (₹)	20,00,000	25,00,000
Estimated working life	5 years	5 years
Estimated saving in direct wages per annum (₹)	7,00,000	9,00,000

Estimated saving in scrap per annum	(₹)	60,000	1,00,000
Estimated additional cost of indirect material per annum	(₹)	30,000	90,000
Estimated additional cost of indirect labour per annum	(₹)	40,000	50,000
Estimated additional cost of repairs and maintenance		45,000	85,000

Depreciation will be charged on a straight line method. Corporate tax rate is 30 percent and expected rate of return may be 12 percent.

You are being the finance manager of the company required to analyse both the machine in relation to financial details and answer the following questions (MCQ 1 to 5)

- Pay-back Period of Machine Model X-Pro is:
 - 2.55 years
 - 3 years
 - 3.50 years
 - 4 years
- Pay-back Period of Machine Model Z-Elite is:
 - 2 years
 - 2.52 years
 - 3 years
 - 3.61 Years
- Accounting (Average) Rate of Return (ARR) on the basis of average investment is:
 - X-Pro: 17.15%, Z-Elite: 15.40%
 - X-Pro: 16%, Z-Elite: 18.2%
 - X-Pro: 18.2%, Z-Elite: 20%
 - X-Pro: 20%, Z-Elite: 22.16%
- Profitability Index (P.V. Index) of Model X-Pro is:
 - 1.05
 - 1.10
 - 1.03
 - 1.20

5. Profitability Index (P.V. Index) of Model Z-Elite is:

- (A) 1.02
- (B) 1.08
- (C) 1.12
- (D) 1.00

(5 x 2 = 10 Marks)

6. The shares of Ritik Ltd. are presently traded at ₹ 64 and the company is expected to pay dividends of ₹ 6 per share with a growth rate expected at 12% per annum. It plans to raise fresh equity share capital. The merchant banker has suggested that an underpricing of ₹ 3 is necessary in pricing the new issue besides involving a cost of ₹ 1 per share on miscellaneous expenses. The cost of new equity shares (assuming no change in dividend rate and growth rate) will be:

- (A) 18%
- (B) 17.5%
- (C) 20.25%
- (D) 22%

(2 Marks)

7. X Ltd. is considering the following two alternative financing plans:

	Plan – I (₹)	Plan – II (₹)
Equity shares of ₹ 10 each	4,00,000	4,00,000
12% Debentures	2,00,000	-
Preference Shares of ₹ 100 each	-	2,00,000
	6,00,000	6,00,000

The indifference point between the plans is ₹ 2,40,000. Corporate tax rate is 30%.

What is the dividend on preference shares:

- (A) ₹ 16,800
- (B) ₹ 25,000
- (C) ₹ 36,600
- (D) ₹ 10,200

(2 Marks)

8. The following information is provided by the DVP Ltd. for the year ending 31st March, 2025.

Raw Material storage period	50 days
Work in progress conversion period	18 days
Finished Goods storage period	22 days
Debt Collection period	45 days
Creditors' payment period	55 days

Number of Operating Cycle in a Year (360 days) of DVP Ltd is:

- (A) 4.50
(B) 3.10
(C) 4.25
(D) 2.20

(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) DCF Limited has its Earnings Before Interest and Taxes (EBIT) of ₹ 60,00,000. The company is evaluating options to introduce debt financing in its capital structure. Following information are related to various options of debt financing in the capital structure:

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)

- (b) Zenith Manufacturing Ltd., a mid-sized production company, is currently reviewing the impact of its capital structure on profitability and risk. The company has financed its operations through a mix of equity and debt.

The capital structure of Zenith Manufacturing Ltd. consists of:

- Equity share capital of ₹ 15,00,000 (shares of ₹ 100 each), and
- 10% debentures amounting to ₹ 15,00,000.

During the current financial year, the company experienced a 20% increase in sales volume, rising from 1,50,000 units to 1,80,000 units. The management is interested in understanding how this increase in activity level affects earnings and leverage. The selling price is ₹ 15 per unit, variable costs amount to ₹ 8 per unit and fixed expenses amount to ₹ 3,00,000. The income tax rate is assumed to be 30 per cent.

- (I) You are required to CALCULATE the following:

- The percentage increase in earnings per share.
- The degree of financial leverage at 1,50,000 units and 1,80,000 units.
- The degree of operating leverage at 1,50,000 units and 1,80,000 units.

- (II) COMMENT on the behaviour of operating and financial leverage in relation to increase of production from 1,50,000 to 1,80,000 units. **(5 Marks)**

- (c) PQR Limited has the following Balance Sheets as on March 31, 2026 and March 31, 2025:

Balance Sheet

	₹ in lakhs	
	March 31, 2026	March 31, 2025
Sources of Funds:		
Shareholders Funds	2,377	1,472
Loan Funds	<u>3,570</u>	<u>3,083</u>
	<u>5,947</u>	<u>4,555</u>
Applications of Funds:		
Fixed Assets	3,466	2,900
Cash and bank	489	470

Debtors	1,495	1,168
Stock	2,867	2,407
Other Current Assets	1,567	1,404
Less: Current Liabilities	<u>(3,937)</u>	<u>(3,794)</u>
	<u>5,947</u>	<u>4,555</u>

The Income Statement of the PQR Ltd. for the year ended is as follows:

	₹ in lakhs	
	March 31, 2026	March 31, 2025
Sales	22,165	13,882
Less: Cost of Goods sold	<u>20,860</u>	<u>12,544</u>
Gross Profit	1,305	1,338
Less: Selling, General and Administrative expenses	<u>1,135</u>	<u>752</u>
Earnings before Interest and Tax (EBIT)	170	586
Interest Expense	<u>113</u>	<u>105</u>
Profits before Tax	57	481
Tax	<u>23</u>	<u>192</u>
Profits after Tax (PAT)	34	289

CALCULATE for the year 2025-26:

- (i) Inventory turnover ratio
- (ii) Financial Leverage
- (iii) Return on Capital Employed (ROCE)
- (iv) Return on Equity (ROE)
- (v) Average Collection period.

Take 365 days in a year

(5 Marks)

2. (a) A company is in the process of finalising its financial strategy for the upcoming year, with a particular focus on balancing profitability and liquidity through its working capital policies. The management anticipates that the level of investment in current assets — especially inventories and receivables (book debts) will have a direct impact on sales volume and, consequently, on Earnings Before Interest and Tax (EBIT).

For the next financial year, the company has projected its investment in fixed assets at ₹ 2.60 crore, while current liabilities are expected to stand at ₹ 2.34 crore. With these baseline estimates in place, the company must decide how aggressively or conservatively it should invest in current assets.

The Financial Controller has been tasked with evaluating alternative working capital policies. Each policy represents a different level of investment in current assets, which in turn affects sales potential, operating efficiency, risk exposure, and profitability. A higher investment in inventories and receivables may support increased sales and improved customer service but could also lead to higher carrying costs and risk of obsolescence or bad debts. On the other hand, a more conservative approach may reduce costs and risks but could constrain sales growth and customer satisfaction.

In this context, the Financial Controller is analysing various scenarios of working capital investment (expressed in ₹ crore), comparing their impact on sales, EBIT, and overall financial performance. The objective is to identify an optimal policy that strikes a balance between risk and return while ensuring adequate liquidity for smooth business operations.

Working capital policy	Investment in current assets	Estimated sales	EBIT
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the financial controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use ₹ 2.50 crore of the equity funds. The corporate tax rate is 35 per cent. The company is considering the following debt alternatives:

Financing Policy	Short-term debt	Long-term debt
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average (%)	12	16

Required:

- (1) Working capital investment for each policy. (a) Net working capital position, (b) Rate of return, and (c) Current ratio
- (2) Financing for each policy. (a) Net working capital position, (b) Rate of return on shareholder equity, and (c) Current ratio **(8 Marks)**
- (b) EXPLAIN the 'Aging Schedule' in the context of monitoring of receivables. **(2 Marks)**
3. (a) The capital structure of RST Ltd., as at 31st March, 2025, is as under:

	₹
Equity Share Capital (₹ 100 each)	6,00,00,000
10% Cumulative Preference Shares (₹ 100 each)	2,00,00,000
12% Debentures	8,00,00,000
Retained Earnings	4,00,00,000

The equity shares are traded in the market and current market price of the share is ₹ 150 per share. The market value of preference share is ₹ 120 each. Market value of debentures is ₹ 8,60,00,000.

For the year ended on 31st March, 2025, the company has paid equity dividend @24% and anticipates that it will grow by 5% every year. The tax rate applicable to the company is 25%.

You are required to COMPUTE:

- (i) Cost of capital of each source of finance for the company.
- (ii) Weighted Average Cost of Capital (WACC) on the basis of book value weights.
- (iii) Weighted Average Cost of Capital (WACC) based on market value weights. **(7 Marks)**
- (b) Vista Limited's retained earnings per share for the year ending 31.03.2023 being 40% is ₹ 3.60 per share. Company is foreseeing a growth rate of 10% per annum in the next two years. After that the growth rate is expected to stabilize at 8% per annum. Company will maintain its existing pay-out ratio. If the investor's required rate of return is 15%, CALCULATE the intrinsic value per share as of date using Dividend Discount model. **(3 Marks)**

4. (a) DISCUSS the features of international funding and angel financing in the context of corporate financing. **(4 Marks)**
- (b) "The treasury department of a business concern has evolved its importance over the years from being responsible for only cash handling issues to technical areas revolving around hedging forex risks and composition of capital structure." In the light of this statement, EXPLAIN briefly the fundamental tasks for which treasury department is responsible. **(4 Marks)**
- (c) DISCUSS the dividend-price approach, and earnings price approach to estimate cost of equity capital. **(2 Marks)**

OR

- (c) "Operating risk is associated with cost structure, whereas financial risk is associated with capital structure of a business concern." Critically EXAMINE this statement. **(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) InnovateCo, a \$4 billion multinational company headquartered in London, operates as a diversified conglomerate, with its primary business segments in consumer electronics, home appliances, and electric vehicles (EVs). Known for its relentless focus on cost efficiency and innovation, InnovateCo faces a unique challenge: balancing its portfolio of business units while optimizing its internal processes to enhance profitability.

At the core of InnovateCo's strategy is its reliance on the BCG Matrix to classify its business units. The consumer electronics division, with a market share of 25% in a growing industry, is classified as a "Star." On the other hand, its home appliances unit—a mature market segment with steady cash flow but low growth potential—is considered a "Cash Cow," generating \$500 million annually in profits. However, InnovateCo's leadership recognizes contradictions when using the ADL Matrix alongside the BCG Matrix. For example, while the EV division is seen as a "Question Mark" under BCG (due to low current market share), it is labeled as "Dominant" under ADL due to its strong industry position and technological leadership. This mismatch has led the management to reconsider resource allocation decisions.

Public perception of InnovateCo's brand plays a crucial role in its success. Using Mendelow's Matrix, the company has identified media outlets and advocacy groups as high-power, high-interest stakeholders, prompting the development of a robust PR strategy. For example, InnovateCo recently launched a sustainability report that highlights its commitment to reducing its carbon footprint by 40% by 2030, earning positive coverage in influential publications.

Internally, InnovateCo has adopted a lean functional structure to improve communication and decision-making. With this approach, cross-departmental coordination between R&D, marketing, and supply chain teams has accelerated product development cycles by 20%. The lean structure also reduces bureaucracy, ensuring quicker responses to market changes.

In terms of competitive positioning, InnovateCo follows a cost leadership strategy with a twist. Leveraging its significant bargaining power with suppliers, the company achieves economies of scale while maintaining high-quality standards. For example, by negotiating bulk raw material purchases, InnovateCo cut production costs for its EV batteries by 15%, allowing it to offer competitive pricing without sacrificing profitability.

Lastly, InnovateCo has fully embraced e-commerce as its primary distribution channel. Its online platform generated \$1.2 billion in revenue last year, driven by AI-powered recommendations and a seamless user experience. This channel not only reduces intermediary costs but also provides InnovateCo with direct access to valuable consumer data, enhancing its ability to personalize offerings.

With a focus on streamlining operations, leveraging digital platforms, and refining its strategic frameworks, InnovateCo aims to increase profitability by 12% annually. However, challenges like reconciling strategic contradictions and maintaining stakeholder alignment remain key hurdles for the company.

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

- (i) How does InnovateCo's home appliances division contribute to the company's strategy?
 - (a) By driving innovation in high-growth markets
 - (b) By generating steady cash flow for investment in growth areas
 - (c) By serving as a testing ground for new technologies
 - (d) By acting as the primary driver of revenue **(2 Marks)**
- (ii) What contradiction does InnovateCo face when using both the BCG and ADL Matrices?
 - (a) The consumer electronics unit is classified differently in both matrices.
 - (b) The EV division's classification differs due to conflicting metrics of growth and industry position.
 - (c) The home appliances division is labeled as both a "Dog" and "Dominant."
 - (d) The ADL Matrix undervalues the contribution of "Stars." **(2 Marks)**
- (iii) How does Mendelow's Matrix influence InnovateCo's PR strategy?
 - (a) By identifying suppliers as high-power, low-interest stakeholders.

- (b) By focusing solely on customer satisfaction surveys.
 - (c) By prioritizing media outlets and advocacy groups for engagement.
 - (d) By directing resources toward low-power stakeholders. **(2 Marks)**
- (iv) What is the key benefit of InnovateCo's lean functional structure?
- (a) Increased bureaucracy for better control
 - (b) Accelerated product development cycles
 - (c) Improved focus on a single business unit
 - (d) Enhanced reliance on external consultants **(2 Marks)**
- (v) How does InnovateCo achieve cost leadership in its EV segment?
- (a) By focusing only on premium pricing
 - (b) By outsourcing production to low-cost countries
 - (c) By leveraging bargaining power with suppliers to reduce costs
 - (d) By eliminating investments in R&D **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

- (i) A small e-commerce startup is entering a highly competitive online retail market. The market is dominated by a few large players with significant market share. Which of the following forces is most likely to impact the startup's ability to compete effectively?
- (a) Threat of new entrants
 - (b) Bargaining power of suppliers
 - (c) Threat of substitute products or services
 - (d) Rivalry among existing competitors **(2 Marks)**
- (ii) A renewable energy company states: *"We aim to lead the global transition towards 100% clean energy in the next 20 years."* However, its current activities are limited to installing solar panels in one region. This statement primarily represents:
- (a) Mission
 - (b) Vision
 - (c) Short-term objective

- (d) Functional strategy **(2 Marks)**
- (iii) What is the primary role of strategic management in achieving organizational goals?
- (a) To ensure immediate profitability
- (b) To provide a roadmap for achieving long-term objectives
- (c) To eliminate the need for operational planning
- (d) To focus solely on short-term gains **(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) XYZ Pharmaceuticals plans to launch a new line of affordable medicines. The top management defines long-term expansion plans, while different product divisions such as generics and specialty drugs operate independently under separate division heads. Each division has its own functional teams like marketing, HR and production reporting to respective heads. Recently, the company has also started forming cross functional teams for new product launches where employees report to more than one manager. In this context, identify and explain the different types of network relationships existing in the organisation and briefly comment on their suitability. **(5 Marks)**
- (b) Suraj Prakash and Chander Prakash are two brothers engaged in the business of spices. Both have different approaches to management. Suraj Prakash prefers the conventional and formal approach in which authority is used for explicit rewards and punishment. While, on the other hand, Chander Prakash believes in democratic participative management approach, involving employees to give their best. Analyse the leadership style followed by Suraj Prakash and Chander Prakash. **(5 Marks)**
- (c) Karan Malhotra owns a company that operates a chain of organic food restaurants in metropolitan cities. The market has a limited number of premium organic restaurants, but customers have many alternative dining options such as fast-food outlets, home-cooked meals, and food delivery services. Customers are highly conscious of price and quality and frequently switch between restaurants based on offers and reviews. Additionally, entering the organic restaurant business requires moderate investment and compliance with food safety standards, but no

- major technological barriers exist. Identify the Porter's Five Forces that are significant in this scenario and explain their impact on the company. **(5 Marks)**
2. (a) Explain the importance of values, as one of the components of strategic intent for a company. What are the common examples of values? How values are different from intent? **(5 Marks)**
 - (b) Write short note on SWOT analysis. **(5 Marks)**
 3. (a) Which concept explains the efficiency increase gained by workers through repetitive production work, leading to cost reduction and competitive advantage? List down its relevance features in strategic management. **(5 Marks)**
 - (b) Write a short note on the role of ADL Matrix in assessing the competitive position of a firm. **(5 Marks)**
 4. (a) "Managing stakeholders is critical to the success of a project". Explain how Mendelow's Matrix helps in managing stakeholders and categorizing the stakeholders into groups. **(5 Marks)**
 - (b) York Investors, recognizing the importance of aligning its organizational elements with strategic objectives, has strategically invested in training programs, technology, and communication systems. The company aims to enhance the skills and capabilities of its workforce through comprehensive training initiatives. Simultaneously, York Investors leverages cutting-edge technology to streamline its operations and improve overall efficiency. The investment in communication systems ensures seamless collaboration and information flow across various departments. Identify and explain the model used by York Investors to achieve its strategic objectives.

OR

Merako Appliances recently automated its assembly line to produce kitchen gadgets faster and at lower cost, improving operational efficiency. However, customer feedback shows that the new products don't meet market needs, leading to declining sales. This has sparked an internal debate on balancing efficiency (doing things right) with effectiveness (doing the right things). How should Merako balance efficiency and effectiveness to achieve sustainable success? Also, describe the four possible situations a business can face when comparing levels of efficiency and effectiveness. **(5 Marks)**