Mock Test Paper - Series II: August 2026

Date of Paper: 19th August 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

Solstice Biotech Ltd. is engaged in the manufacture of advanced diagnostic testing kits, including a rapid screening kit that saw a sharp rise in demand following a nationwide public-health screening initiative. To meet this surge, production was scaled to a record high, and the company approached Continental Trade Bank for a loan to fund its working capital and investment requirements. Along with its loan proposal and project report, the company submitted its financial statements for the preceding three years, reproduced below.

Statement of Profit and Loss (₹ '000)

Particulars	2023–24	2024–25	2025–26
Sales — Cash	400	960	1,600
Sales — Credit	3,600	8,640	14,400
Total Sales	4,000	9,600	16,000
Cost of Goods Sold	2,480	5,664	9,600
Gross Profit	1,520	3,936	6,400

General, Administration & Selling Expenses	160	900	2,000
Depreciation	200	800	1,320
Interest Expense (on borrowings)	120	316	680
Profit Before Tax	1,040	1,920	2,400
Tax @ 30%	312	576	720
Profit After Tax	728	1,344	1,680

Balance Sheet (₹ '000)

Particulars	2023–24	2024–25	2025–26
Fixed Assets (net of depreciation)	3,800	5,000	9,400
Cash and Cash Equivalents	80	200	212
Accounts Receivable	600	3,000	4,200
Inventories	640	3,000	4,500
Total Assets	5,120	11,200	18,312
Equity Share Capital (₹ 10 each)	2,400	3,200	4,000
Other Equity	728	2,072	3,752
Non-Current Borrowings	1,472	2,472	5,000
Current Liabilities	520	3,456	5,560
Total Equity & Liabilities	5,120	11,200	18,312

Industry Average of Key Ratios

As on 31st March 2026, the company's closing balances of accounts receivable and inventories used for the year's turnover computations were ₹ 6,00,000 and ₹ 6,40,000 respectively.

Ratio	2023–24	2024–25	2025–26	Industry Avg.
Current ratio	2.54	1.80	1.60	2.30 : 1
Acid test (quick) ratio	1.31	0.93	0.79	1.20 : 1
Receivable turnover ratio	6.00	4.80	4.00	7 times
Inventory turnover ratio	3.88	3.11	2.56	4.85 times
Long-term debt to total debt	73.90%	41.70%	47.35%	24%
Debt-to-equity ratio	47.06%	46.89%	64.50%	35%
Net profit ratio	18.2%	14.0%	10.5%	18%
Return on total assets	14.22%	12.0%	9.17%	10%
Interest coverage ratio	9.67	7.08	4.53	10 times

Based on the above Case Scenario, answer the following questions:

1. Based on the FY 2025–26 figures, what are the Current Ratio and the Acid-test (Quick) Ratio of Solstice Biotech Ltd.?

   (A) 1.60 : 1 and 0.79 : 1

   (B) 2.30 : 1 and 1.20 : 1

   (C) 1.60 : 1 and 1.02 : 1

   (D) 1.80 : 1 and 0.93 : 1 **(2 Marks)**

2. What are the Receivable Turnover Ratio and Inventory Turnover Ratio of Solstice Biotech Ltd. for FY 2025–26, computed on average balances?

   (A) 3.43 times and 2.13 times

   (B) 6.00 times and 3.88 times

   (C) 4.00 times and 2.56 times

   (D) 4.80 times and 3.11 times **(2 Marks)**

3. What are the Long-term Debt to Total Debt Ratio and the Debt-to-Equity Ratio of Solstice Biotech Ltd. for FY 2025–26?

   (A) 24.00% and 35.00%

   (B) 27.31% and 64.50%

   (C) 41.70% and 46.89%

   (D) 47.35% and 64.50% **(2 Marks)**

4. What are the Net Profit Ratio and the Return on Total Assets of Solstice Biotech Ltd. for FY 2025–26?

   (A) 15.00% and 9.17%

   (B) 18.00% and 10.00%

   (C) 14.00% and 12.00%

   (D) 10.50% and 9.17% **(2 Marks)**

5. The Interest Coverage Ratio of Solstice Biotech Ltd. fell to 4.53 times in FY 2025–26 (industry average 10 times) while its Debt-to-Equity Ratio rose to 64.50% (industry average 35%). As the credit appraisal officer, what should be your primary concern in appraising this loan proposal? **(2 Marks)**

   (A) Both figures are favourable, so the loan can be sanctioned without further scrutiny.

(B) The falling interest coverage combined with rising leverage signals a reduced cushion to service debt and heightened repayment risk, warranting closer scrutiny before further lending.

(C) The interest coverage ratio is irrelevant once the debt-to-equity ratio is known.

(D) Since sales are growing, both ratios can be ignored in the loan decision.

(5 x 2 = 10 Marks)

6. Anand is considering automating his glass factory with the purchase of a machine costing ₹ 10,95,000. Shipping and installation costs are ₹ 25,000. He has calculated that the automation would result in savings of ₹ 1,25, 000. The machine has a useful life of 3 years. What will be the incremental cash outlay of this automation?

(A) ₹ 11,20,000

(B) ₹ 9,70,000

(C) ₹ 9,95,000

(D) ₹ 10,70,000 **(2 Marks)**

7. If the weighting of equity in total capital is 1/3, that of debt is 2/3, the return on equity is 15% that of debt is 10% and the corporate tax rate is 32%, what is the Weighted Average Cost of Capital (WACC)?

(A) 10.533%

(B) 7.533%

(C) 9.533%

(D) 11.350% **(2 Marks)**

8. The cost of equity capital is all of the following except:

(A) the minimum rate that a firm should earn on the equity-financed part of an investment.

(B) a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged.

(C) by far the most difficult component cost to estimate.

(D) generally lower than the before-tax cost of debt. **(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) The current credit sales of a firm is ₹ 20,00,000 and the firm still has an unutilized capacity. In order to boost its sales, the firm is willing to relax its credit policy.

The firm proposes a new credit policy of 2/15 net 60 days as against the present policy of 1/15 net 45 days. The firm expects an increase in the sales by 15%. However, it is also expected that bad debts will go up to 2.5% of sales from 1.5%.

The contribution to sales ratio of the firm is 25%. The firm's tax rate is 30% and the firm requires an after tax return of 12% on its investment.

Should the firm change the credit policy? **(5 Marks)**

(b) The following information is supplied to you:

Particulars	**Amount (₹)**
Total Earnings	8,00,000
Equity Shares (of ₹ 100 each)	40,00,000
Dividend Paid	4,80,000
Price / Earnings (P/E) Ratio	10

Applying Walter's Model, answer the following:

(i) ANALYSE whether the company is following an optimal dividend policy.

(ii) COMPUTE the P/E ratio at which the dividend policy will have no effect on the value of the share.

(iii) Will your decision change if the P/E ratio is 4 instead of 10? ANALYSE.

(5 Marks)

(c) Nova Green Mobility Ltd., a well-established and profitable manufacturer of electrical components, is evaluating a proposal to enter the electric-vehicle (EV) charging equipment business by setting up a new plant to manufacture smart EV charging stations. The project calls for a capital outlay of ₹ 1,000 lakhs and working capital of ₹ 150 lakhs. The plant is designed for an annual production capacity of 3 lakh units, and over the project's five-year life, capacity utilisation is projected as follows:

Year	1	2	3	4	5
Capacity Utilisation (%)	50	65	80	100	100

Each charging unit is expected to sell at an average price of ₹ 600, yielding a contribution margin of 60%. Annual fixed costs (excluding depreciation) are estimated at ₹ 500 lakhs from the third year onwards, and at ₹ 200 lakhs and ₹ 350 lakhs in the first and second years respectively.

The capital asset is expected to fetch a scrap value of ₹ 200 lakhs at the end of the fifth year, and depreciation for income-tax purposes is charged on the written-down-value method at 40% p.a. The applicable income-tax rate is 30%, and the cost of capital is 12%. A further ₹ 200 lakhs of working capital will need to be invested at the end of the third year, and no capital gains tax is applicable to the transaction.

You are required to compute the Net Present Value (NPV) of the project. Nova Green Mobility Ltd. is preparing to present the proposal to Secure Venture Capital Firm, which invests in a project only if it adds more than ₹ 100 lakhs to shareholder wealth. Assess whether Nova Green Mobility Ltd. would qualify for funding from Secure Venture Capital Firm on this basis. **(5 Marks)**

2. (a) Vertex Industries Ltd. is evaluating the cost of equity for its upcoming expansion project. The company's finance manager has collected the following market data:

- Risk-free rate of return (Rf) = 5%
- Expected return on the market portfolio (Rm) = 10%
- Beta (β) of Vertex Industries' equity = 2.0

Required

(a) Calculate the cost of equity (Ke) for Vertex Industries Ltd. using CAPM.

(b) Calculate and compare the cost of equity for two competitor firms: Competitor A (β = 1.2) and Competitor B (β = 0.8). **(4 Marks)**

(b) Sunrise Foods Limited, a mid-sized packaged-foods company, is reviewing its cost structure and capital mix before approaching its board with next year's financial plan. Its Balance Sheet as on 31st March 2026 is given below:

Liabilities & Equity	₹ (in crores)	Assets	₹ (in crores)
Equity Share Capital (1.20 crore shares of ₹ 10 each)	12	Fixed Assets (Net)	32
Reserves and Surplus	3	Current Assets	18

12% Debentures	25		
Current Liabilities	10		
Total	**50**	**Total**	**50**

The company's finance team has also shared the following details:

- Fixed costs per annum (excluding interest): ₹ 10 crores
- Variable operating cost ratio: 60%
- Total Assets turnover ratio: 3
- Income-tax rate: 30%

As the company's financial analyst, you are required to CALCULATE the following and comment on what each result means for Sunrise Foods:

(i) Earnings per share

(ii) Operating Leverage

(iii) Financial Leverage

(iv) Combined Leverage **(6 Marks)**

3. (a) ABC Limited is a manufacturing company with an all-equity capital structure. The firm is experiencing growth opportunities and needs to make strategic decisions regarding its capital structure to finance expansion plans. The company currently has 1,00,000 ordinary shares @ ₹ 10 in issue. Its current operational metrics are:

- Return on Capital Employed (ROCE): 31.25% [Capital Employed = Face Value of Equity Share Capital]
- Operating Margin (EBIT / Revenue): 31.25%
- Tax Rate: 50%

ABC Limited has identified investment opportunities requiring additional capital equal to 25% of its existing equity base. Management is evaluating three financing alternatives:

Option 1 — Equity Financing: Issue ordinary shares at face value

Option 2 — Debt Financing: Borrow at 8% per annum

Option 3 — Preference Share Financing: Issue preference shares carrying an 8% per annum dividend

Preliminary analysis shows that the difference in EPS between the Debt option and the Preference Share option works out to ₹ 0.10 per share.

You are required to:

1. Identify which financing alternative, Debt or Preference Shares yields the higher EPS, and explain the reason for the difference.
2. Find the Existing Equity Base, Face Value of Equity Shares, EBIT and Revenue.
3. If the additional finance is raised entirely through equity shares issued at face value, how many new shares should be issued?
4. Assuming the same EBIT, determine the Earnings Per Share (EPS) under each of the three financing alternatives. **(8 Marks)**

(b) Name the various financial instruments dealt with in the international market.

(2 Marks)

4. (a) WRITE short notes on Inter relationship between investment, financing and dividend decisions. **(4 Marks)**

(b) DISCUSS the liquidity vs. profitability issue in management of working capital.

(4 Marks)

(c) EXPLAIN: Callable bonds and Puttable bonds. **(2 Marks)**

Or

Briefly DESCRIBE bridge finance **(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) EcoNurture Foods, founded in 2008 in India, specializes in producing plant-based, sustainable snacks and beverages. With a mission statement focused on "nourishing people and the planet through sustainable innovation," the company aims to lead the market in environmentally friendly food alternatives. However, following a decade of double-digit growth, EcoNurture faced stagnation due to increased competition, operational inefficiencies, and changing consumer trends.

To regain its competitive edge, EcoNurture has initiated a turnaround strategy. The first step involved a complete overhaul of its outbound logistics, a key activity in its value chain. By investing in renewable-energy-powered delivery vehicles and partnering with a global logistics provider, the company reduced shipping costs by 20% and cut carbon emissions by 35%. This not only enhanced operational efficiency but also reinforced the brand's commitment to sustainability; a core value that resonates with its target market.

Simultaneously, EcoNurture addressed the barriers to new entry in the plant-based food industry. While small competitors have entered the market with niche products, the company's established brand reputation, economies of scale, and extensive distribution network continue to deter potential entrants. By leveraging these barriers, EcoNurture protects its market share in key regions of western ghats & southern states of India.

In pursuit of growth, EcoNurture has adopted a diversification strategy. In 2024, the company launched a new line of functional beverages infused with probiotics and vitamins, targeting the growing health-conscious consumer base. This diversification has contributed to a 15% increase in revenue in its first year, with projected sales of INR150 Crores in 2025.

To further expand its market reach, EcoNurture formed a strategic alliance with Homely Basket, a premium organic retail chain in Asia. This partnership allows EcoNurture to enter high-growth Asian markets while Homely Basket benefits from exclusive rights to distribute EcoNurture's products. The alliance is expected to generate an additional INR 50 Crores in annual revenue for both companies.

Despite these initiatives, challenges remain. Consumer demand for innovation is relentless, and competition from both established players and startups continues to intensify. To stay ahead, EcoNurture's leadership must ensure alignment with its mission statement while balancing profitability and sustainability. With strong execution of its turnaround strategy and continued focus on partnerships and diversification, EcoNurture is poised to reclaim its position as a leader in sustainable nutrition.

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

(i) EcoNurture Foods' mission statement is well developed but the company still had to go through a turnaround strategy. What does this say about Strategic Management?

(a) Strategic Management is a futile exercise

(b) Proactive approach matters, but macro trends are more important

(c) It is time consuming but helps by developing defense mechanisms as well

(d) Mission statement should change with strategy **(2 Marks)**

(ii) A 15% increase in revenue in its first year, with projected sales of INR150 Crores in 2025 with the launch of probiotics and vitamins. Based on this statement, study the case carefully and mark the option which you feel resonates best.

(a) A company which did a turnaround should not be diversified

(b) Target customer needs if studied with passion lead to a successful diversification

(c) Diversification is suitable only for Startups

(d) Investments made early in a good leader could save money spent on diversification **(2 Marks)**

(iii) Homely Basket deal is an important milestone in EcoNurture's strategic outlay. A well-planned move to join hands together to achieve important strategic benefits. Identify the benefits from the scenario it brought to EcoNurture.

(a) It helped diversify their existing portfolio & kept the niche local players away

(b) It helped achieve a better brand name & economies of scale

(c) It helped to go global & surpass the niche local players which were flooding Indian market

(d) It helped to increase prices with premiumization & gain customer confidence **(2 Marks)**

(iv) Every strategic management decision has an inherent importance and so is the case with EcoNurture, as it took a good number of decisions for elongating its growth phase. Two long-term strategic themes do come out clearly from the business case. Identify and mark those from your reading of the scenario.

(a) Profitability & Sustainability

(b) Customer Obsession & Organisational Restructuring

(c) Globalisation & Product Diversification

(d) Niche Products & Competitive Pressures **(2 Marks)**

(v) Investing in renewable-energy-powered delivery vehicles and partnering with a global logistics provider, the company reduced shipping costs and cut carbon emissions. It supported their core value that also resonates with its target market. What did they actually gain from this transition?

(a) Meeting consumer demand for innovation and beating competition from established players

(b) Creating barriers to new entry in the plant-based food industry

(c) Focus on delivering mission statement in the long-term

(d) Enhanced operational efficiency and brand's long-term commitment to sustainability **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) ABC is a marketing consultancy business. ABC's most recent corporate analysis has identified that three new businesses have recently entered its market and started aggressively targeting ABC's key client. As part of ABC's corporate analysis, these three new businesses would be a –

(a) Strength

(b) Opportunity

(c) Weakness

(d) Threat **(2 Marks)**

(ii) The Specialist Clothing Company (SCC) is a manufacturer of a wide range of clothing. Fashion is one of the five divisions of SCC. Fashion is operating in a market with high growth and is the market leader. By the next year, it is predicted to have 10% of the market share in a growing market. Fashion should be classified as which of the following according to the BCG matrix.

(a) Star

(b) Dog

(c) Cash cow

(d) Question mark **(2 Marks)**

(iii) Urbankey has a unique capability in rapid prototyping, allowing them to bring new products to market faster than the competitors. Such an advantage can be termed as?

(a) Market Expansion Strategy

(b) Core Competency

(c) Cost Leadership Strategy

(d) Appropriate SWOT Analysis **(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) Ecro Ltd. is an e-commerce company that specializes in selling eco-friendly products. Although the company has been doing well, it still continues actively to strengthen its brand identity, launch creative and impactful marketing campaigns and introduce new and innovative eco-friendly products.

However, the company has started facing increasing competition from large retailers who are entering the eco-friendly space. To face competition the company quickly started to adapt to the changing market conditions, analyse the competitors' strategies, adopt different styles of marketing in response to competitors' action and counteract competitors' pricing strategies.

Discuss the strategic approaches taken by Ecro Ltd. in the two different situations to stay competitive. Explain the strategy that Ecro Ltd. should adopt in future to remain competitive and gain competitive advantage. **(5 Marks)**

(b) In addition to new market opportunities and change in customer preferences, as a known fact, technology is also changing very fast. In view of the same, 'Twaran', having a small and mid-sized business, wants to use latest digital technologies for improved procedures and products. The primary aim of the firm is to have a competitive edge in the evolving business landscape through digital transformation. The entity would like to deal with regular changes firmly, along with transforming its management techniques. Identify the strategy required for digital transformation. Also state the most preferred practices to be followed by the entity. **(5 Marks)**

(c) ARP Motors, an automobile company, was struggling in the competitive SUV market in India. As a business strategist, you recommended that ARP launch a compact SUV that balances affordability with premium features. In response, ARP developed and introduced FLEXON, strategically pricing it and incorporating high-end features such as a 5-star Global NCAP safety rating, a modern design and advanced technology. Furthermore, the company expanded into the electric vehicle segment with FLEXON EV, positioning it as one of the most affordable yet feature-rich electric SUVs in India. Which strategy did you recommend to ARP Motors to achieve a competitive advantage? Explain the strategy briefly and enumerate the keyways ARP Motors implemented it. **(5 Marks)**

2. (a) “A well-defined vision and mission statement provide direction and purpose to an organization." Explain the significance of vision and mission statements in strategic planning. **(5 Marks)**

(b) Recommend a tool to analyze the competitive position of various rival companies in the market and outline the step-by-step procedure for using the identified tool.

(5 Marks)

3 (a) An organization should select the right strategic performance measures that are aligned with its goals and objectives and provide relevant and actionable information. Explain all the factors and importance of these factors that need to be considered. **(5 Marks)**

(b) Innovation is widely regarded as a catalyst for business growth, enabling firms to upgrade existing products and processes, enhance customer satisfaction, and improve profitability. In light of this statement, explain what an innovation offers to the organisation and any risk involved in doing so. **(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) 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.

OR

In light of the five forces as propagated by Michael Porter, explain the common barriers which may cause restraint for the keenness of new entrepreneurs.

(5 Marks)