Mock Test Paper - Series II: August 2025

Date of Paper: 11th August, 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.

Case Scenario

Medilab Diagnostics Pvt. Ltd., a fast-growing healthcare diagnostics chain in Maharashtra, operates several diagnostic centers, offering services such as pathology, radiology, and preventive health screenings.

One of their most profitable centers in Pune recently experienced downtime due to failure of its 10-year-old ultrasound scanner. The machine has reached the end of its useful life, causing disruptions in patient appointments, especially in obstetrics and abdominal imaging.

To prevent further delays, the procurement and finance teams have evaluated three options:

Two new ultrasound scanner models with identical features are available for purchase from different brands:

Brand	Cost of Machine	Life of Machine	Maintenance Cost			Rate of Depreciation
			Year 1-5	Year 6-10	Year 11-15	
Sonex	₹ 7,20,000	15 years	₹ 24,000	₹34,000	₹45,000	4%
EchoMed	₹ 5,40,000	10 years	₹ 36,000	₹ 58,000	-	6%

The residual value of both machines will drop by 1/3 of the purchase price in the first year, and thereafter shall be depreciated annually at the specified rate.

Alternatively, EchoMed model can be taken on rent, which will be returned to the vendor after use, under the following terms and conditions:

- Annual Rent shall be paid in the beginning of each year and for first year it shall be ₹ 1,18,000
- Annual Rent for the subsequent 4 years shall be ₹ 1,18,500
- Annual Rent for the final 5 years shall be ₹ 1,26,750

The rental agreement can be terminated early by paying a penalty of ₹ 1,10,000. This penalty would be reduced by ₹ 11,000 each year of the period of rental agreement.

The cost of capital for Medilab Diagnostics is 12%.

Being a head of the finance department, you are required to answer the following question of the management (MCQs 1 to 5):

1. What is the residual value of the Sonex and Echomed at the end of their life?
   (a) Sonex: ₹ 1,34,690; EchoMed: ₹ 76,997
   (b) Sonex: ₹ 64,000; EchoMed: ₹ 57,000
   (c) Sonex: ₹ 31,043; EchoMed: ₹ 26,278
   (d) Sonex: ₹ 76,800; EchoMed: ₹ 68,400

2. If Sonex is used for 15 years, what is the Equivalent Annual Cost of the machine?
   (a) ₹ 1,28,000
   (b) ₹ 1,25,600
   (c) ₹ 1,30,004
   (d) ₹ 1,34,230

3. If Echomed is used for 10 years, what is the Equivalent Annual Cost of the machine?
   (a) ₹ 1,28,861
   (b) ₹ 1,35,640
   (c) ₹ 1,32,100
   (d) ₹ 1,27,400

4. If Echomed is taken on rent for 10 years, what is the Equivalent Annual Cost of the machine?

   (a) ₹ 1,22,100

   (b) ₹ 1,35,977

   (c) ₹ 1,28,861

   (d) ₹ 1,18,000

5. Which is the most economical option if the machine is likely to be used for a period of 5 years?

   (a) Purchase Sonex

   (b) Purchase EchoMed

   (c) Rent EchoMed

   (d) Rent Sonex

6. ABC Ltd. has the following capital structure based on market values:

   Equity: ₹ 60 lakhs

   Debt: ₹ 40 lakhs

   Cost of Equity (Retained Earnings): 14%

   Cost of New Equity (after accounting for 5% flotation cost): 15%

   Cost of Debt: 10%

   Corporate Tax Rate: 30%

   The company plans to raise additional capital by issuing new equity instead of using retained earnings. The capital structure weights will remain unchanged. What will be the impact on the Weighted Average Cost of Capital (WACC)?

   (a) WACC will increase to 11.8%

   (b) WACC will remain unchanged at 11.2%

   (c) WACC will decrease to 8.8%

   (c) WACC will increase only if debt increases **(2 Marks)**

7. A company has the following details:

Sales	₹ 50,00,000
Variable Costs	₹ 30,00,000

Fixed Operating Costs	₹ 10,00,000
Interest Expense	₹ 5,00,000

If sales increase by 10%, what will be the percentage increase in Earnings Per Share (EPS)?

(a) 10%

(b) 20%

(c) 30%

(d) 40% **(2 Marks)**

8. XYZ Ltd. has the following data:

Earnings per share (EPS): ₹10

Return on equity (ROE): 18%

Capitalisation rate (Ke): 15%

Dividend payout ratio: 60%

Based on Gordon's Model, what would be the likely effect on the market price per share if the company increases its dividend payout ratio to 80%, assuming all other factors remain constant?

(a) Market price per share will increase

(b) Market price per share will decrease

(c) Market price per share will remain unchanged

(d) Cannot be determined due to insufficient information **(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 Ltd. is a listed company operating in the FMCG sector. The company is currently facing a dilemma regarding its dividend policy. The financial controller has been asked to prepare a report for the Board of Directors evaluating whether the company should retain more profits or distribute higher dividends.

The following financial data is available for the year ended 31st March 2025:

Earnings per share (EPS)	:	₹ 10

Dividend per share (proposed)	:	₹ 6
Number of equity shares	:	10,00,000
Return on investment (r)	:	15%
Cost of equity capital (Ke)	:	12%
Current market price per share	:	₹ 100
Retention ratio	:	40%
Tax rate	:	30%

Corporate bond yield: 8% (for comparison with cost of equity)

Further, the company has an investment proposal requiring ₹ 30,00,000 with an expected return of 14%. If the dividend is increased to ₹ 7/share, the share price is expected to rise to ₹ 104 and if the dividend is reduced to ₹ 4/share, the share price may fall to ₹ 95. The CFO believes that MM hypothesis should be followed, but the Board is inclined towards Walter's model of valuation.

You are required to:

(i) CALCULATE the value of the share using Walter's Model, and comment whether the current dividend policy is optimal.

(ii) Apply Gordon's Model to ESTIMATE the market value of the share.

(iii) HOW by way of MM's Dividend Irrelevance Theory, whether a change in dividend payout (from ₹ 6 to ₹ 7 or ₹4) has any impact on the firm's valuation, assuming no taxes and perfect capital markets. **(5 Marks)**

(b) Fortune Ltd. has furnished the following information relating to the year ended 31st March, 2024 and 31st March, 2025:

	31st March, 2024 (₹)	**31st March, 2025 (₹)**
Share Capital	60,00,000	60,00,000
Reserve and Surplus	30,00,000	40,00,000
Long term loan	40,00,000	40,00,000

- Net profit ratio: 8%
- Gross profit ratio: 20%
- Long-term loan has been used to finance 40% of the fixed assets.

- Stock turnover with respect to cost of goods sold is 4.
- Debtors represent 90 days of credit sales.
- The company holds cash equivalent to 1½ months cost of goods sold.
- Ignore taxation and assume 360 days in a year.
- All sales are credit sales.

You are required to PREPARE Balance Sheet as on 31st March, 2025 in the following format:

Liabilities	(₹)	Assets	(₹)
Share Capital	-	Fixed Assets	-
Reserve and Surplus	-	Sundry Debtors	-
Long-term loan	-	Closing Stock	-
Sundry Creditors	-	Cash in hand	-

(5 Marks)

(c) ABC Ltd. has the following capital structure, which is considered to be optimum as on 31st March, 2025.

Particulars	Amount (₹)
14% Debentures	60,000
11% Preference shares	20,000
Equity Shares (10,000 shares)	3,20,000
	4,00,000

The company share has a market price of ₹ 19.67. Next year dividend per share is 50% of year 2024 EPS. Following is the uniform trend of EPS for the preceding 10 years which is expected to continue in future:

Year	EPS (₹)	Year	EPS (₹)
2015	1.00	2020	1.61
2016	1.10	2021	1.77
2017	1.21	2022	1.95
2018	1.33	2023	2.15
2019	1.46	2024	2.36

The company issued new debentures carrying 16% rate of interest and the current market price of debenture is ₹ 96.

Preference shares of ₹ 9.20 (with annual dividend of ₹ 1.1 per share) were also issued. The company is in 50% tax bracket.

(A) CALCULATE after tax:

(i) Cost of new debt

(ii) Cost of new preference shares

(iii) Cost of new equity share (assuming new equity from retained earnings)

(B) CALCULATE marginal cost of capital when no new shares are issued.

(C) DETERMINE the amount that can be spent for capital investment before new ordinary shares must be sold. Assuming that the retained earnings for next year's investment is 50 percent of 2024.

(D) COMPUTE marginal cost of capital when the fund exceeds the amount calculated in (C), assuming new equity is issued at ₹ 25 per share.

(5 Marks)

2. (a) ABC Engineering Ltd., a mid-sized capital-intensive manufacturing company, is evaluating the risk-return profile of its operations. The company currently operates at 75% of its production capacity. The following information relates to its current operations:

Income Statement at 75% Capacity

Particulars	Amount (₹)
Sales Revenue	7,50,00,000
Variable Cost	4,50,00,000
Fixed Operating Costs	1,20,00,000
EBIT (Earnings Before Interest & Tax)	?
Interest on Debt (12% Debentures)	?
EBT (Earnings Before Tax)	?
Tax Rate	30%

Additional Information:

1. The company has equity share capital of ₹2,00,00,000 (shares of ₹ 10 each, fully paid-up).

2. The current Debt-Equity ratio is 0.75:1, and the company is considering increasing its production to 90% capacity.

3. At 90% capacity:

   - Sales and variable cost per unit will increase proportionately.

   - Fixed operating costs will increase by ₹ 10,00,000 due to additional maintenance, supervisory staff, and overheads.

   - To finance the additional working capital and fixed overheads, the company is considering issuing additional ₹ 50,00,000 in 13% debentures.

4. The management wants to analyze the impact of increased capacity on Operating Leverage, Financial Leverage, and Combined Leverage and the change in EPS (Earnings Per Share) under the new financial plan.

You are required to:

(i) At 75% Capacity (Current Scenario)

  (a) CALCULATE EPS by filling the missing figures.

  (b) CALCULATE Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Combined Leverage (DCL).

(ii) At 90% Capacity with Revised Financial Plan

  (a) CALCULATE new DOL, DFL, and DCL.

  (b) Revised EPS.

(iii) ADVICE as to whether the company proceed with the capacity expansion and debt issue. **(5 Marks)**

(b) The following data are presented in respect of Excellent Automation Ltd.:

	(₹)
Profit before interest and tax	78,00,000
Less: Interest on debentures @ 12%	18,00,000
Profit before tax	60,00,000
Less: Income tax @ 50%	30,00,000
Profit After tax	30,00,000

No. of equity shares (of ₹ 10 each)	12,00,000
EPS	2.5
PE Ratio	10
Market price per share	25

The company is planning to start a new project requiring a total capital outlay of ₹ 60,00,000. You are informed that a debt equity ratio (D/D+E) higher than 35%, pushes the K_e up to 12.5%, means reducing the PE ratio to 8 and rises the interest rate on additional amount borrowed to 14%. FIND OUT the probable price of share if:

(i) the additional funds are raised as a loan.

(ii) the amount is raised by issuing equity shares.

(Note: Retained earnings of the company is ₹ 1.8 crore) **(5 Marks)**

3. (a) Oggy Limited has a current credit sales of ₹ 7,20,000. It is considering revising its credit policy. The proposed terms of credit will be "2/10, net 30" against the present policy of "net 30".

As a result, Oggy Limited's credit sales are expected to increase by ₹ 20,000 and the average collection period will reduce from 30 days to 20 days. It is also expected that 50 percent of the customers will take the discounts and pay on the 10th day and rest of the customers will pay on the 30th day. Bad debt losses will remain at 2 percent of sales. The variable cost ratio is 70 percent.

Its corporate tax rate is 50 percent and opportunity cost of investment in receivables is 10 percent.

ADVISE whether Oggy Limited should change its credit period? **(8 Marks)**

(b) Briefly EXPLAIN the process for analysing Optimal Capital Structure. **(2 Marks)**

4. (a) ABC Ltd. is evaluating two investment opportunities. Project X offers high short-term accounting profits with aggressive cost-cutting measures, while Project Y provides lower immediate profits but improves customer satisfaction, brand loyalty, and long-term cash flows.

As a financial manager, WHICH project should the company choose to ensure value creation? JUSTIFY your answer by comparing the concepts of profit maximization, wealth maximization, and value creation. **(4 Marks)**

(b) Is there any difference between crowd funding and peer to peer lending? EXPLAIN briefly. **(4 Marks)**

(c) A company is currently debt-free and is considering raising ₹10 crore. As a finance manager, what practical factors would you evaluate before deciding whether to raise funds through debt, equity, or a mix of both? JUSTIFY your approach briefly.

(2 Marks)

OR

(c) A company owns a large asset (a commercial building) and is facing a cash crunch. The CFO suggests a sale and leaseback arrangement. As a finance student, WHAT practical benefits and risks would you consider before supporting this decision? **(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)

1. (A) Nav-Uday Electric Mobility Pvt. Ltd., a family-led company based in Pune, began its journey in 1998 as a modest battery manufacturer. Under the leadership of its founder, Mr. Prakash Deshmukh and later his children, the company evolved into a respected player in the electric two-wheeler segment, especially catering to semi-urban and tier-2 markets in India. Their electric scooters earned a reputation for being sturdy, affordable and well-suited to Indian road conditions. With a loyal customer base and an extensive dealer network, Nav-Uday enjoyed steady growth for many years.

However, by 2020, the Indian EV landscape started changing rapidly. International players such as *Volterra Motors* from Germany and *HwaRide* from South Korea entered the market with AI-enabled features, aspirational designs and strategic e-commerce partnerships. Their sleek, tech-savvy scooters captured the attention of India's urban youth and redefined customer expectations. Nav-Uday, which had traditionally focused on functionality and affordability, found itself losing momentum in the face of this disruption.

Recognizing the challenges, Nav-Uday's leadership initiated a comprehensive strategic review. It became evident that while the company maintained strong relationships and a value-driven culture, it had not kept pace with emerging market trends and global innovations. The organization's rigid functional structure, outdated information systems and conservative decision-making processes hindered its ability to adapt quickly. Employees, though skilled in cost-effective engineering, lacked exposure to global design thinking and user-centric innovation.

The review also identified key stakeholders—such as dealers, regulatory authorities and financial partners—whose growing influence needed to be addressed through stronger engagement and alignment with the company's future goals. Three strategic alternatives emerged from the analysis are (1) Targeting less competitive international markets like Africa and Southeast Asia for exports; (2) Becoming a contract manufacturer for global EV brands entering India; (3) Monetizing their patented battery-swapping technology by licensing it within the EV ecosystem.

Nav-Uday chose a hybrid path, combining the second and third options. They began manufacturing for international players while licensing their underutilized battery-swapping technology globally. This dual strategy allowed the company to diversify its revenue streams with lower capital risk while playing to its engineering strengths.

To support this strategic shift, the company restructured its operations, implemented agile processes, adopted integrated information systems and empowered leaders across departments to make faster, data-driven decisions. They also onboarded professionals with global exposure and established innovation-focused teams.

By balancing tradition with transformation, Nav-Uday is now better positioned to compete on a global scale. While staying rooted in its core values of trust and reliability, the company has embraced adaptability, innovation and collaboration as cornerstones of its future growth.

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

(i) Based on Mendelow's Matrix, how would you categorize Dealers in the case of Nav-Uday, who have significant influence and expect alignment with the company's future strategy?

(a) Low Power – Low Interest (Minimal Effort)

(b) Low Power – High Interest (Keep Informed)

(c) High Power – Low Interest (Keep Satisfied)

(d) High Power – High Interest (Key Players) **(2 Marks)**

(ii) When Nav-Uday onboarded professionals with *global exposure* and established *innovation-focused teams*, it primarily impacted which "S" in the 7S Model?

(a) Style

(b) Skills

(c) Shared Values

(d) Structure **(2 Marks)**

(iii) In the context of Porter's Five Forces, the entry of Volterra Motors and HwaRide into the Indian EV market represents:

(a) Threat of substitutes

(b) Bargaining power of suppliers

(c) Threat of new entrants

(d) Rivalry among existing competitors **(2 Marks)**

(iv) Nav-Uday's decision to export to less competitive international markets like Africa and Southeast Asia would primarily be classified as:

(a) Corporate-level strategy

(b) Business-level strategy

(c) Functional-level strategy

(d) Network-level strategy **(2 Marks)**

(v) Nav-Uday's core business model of offering reliable, functional scooters at an affordable price prior to market disruption was primarily a:

(a) Cost Leadership strategy

(b) Differentiation strategy

(c) Focus strategy

(d) Diversification strategy **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) GreenSprout Organics, a sustainable agriculture company, offers a range of eco-friendly farming products. Its portfolio includes mature products generating steady cash flow and several new offerings with high growth potential. Recently, GreenSprout launched a cutting-edge organic bio-fertilizer in a rapidly expanding market. In which quadrant of the BCG Matrix would this new product most likely be placed?

(a) Cash Cow

(b) Dog

(c) Question Mark

(d) Star **(2 Marks)**

(ii) In his pursuit to expand the family business to Dubai, Dharam Veer Singh, the successor of the renowned architect Late Shri Lala Ram Pal Singh, faced a dilemma. Despite receiving positive feedback from various potential investors, a common trend emerged where the emphasis was primarily on swift construction, neglecting the importance of structural longevity. Dharam finds himself at a crossroads. What strategic approach could assist him in formulating a robust and coherent business roadmap that aligns with his vision for sustainable growth?

(a) Vision

(b) Mission

(c) Goals and Objectives

(d) Values/Value system **(2 Marks)**

(iii) A tech startup wants to enter a new market by introducing a new AI-powered product to an entirely new customer segment. Which strategic option best represents this move?

(a) Market Penetration

(b) Market Development

(c) Product Development

(d) Diversification **(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 Corp, a multinational consumer electronics company, is planning to expand its operations into a new country. The company's senior management is evaluating the potential risks and opportunities of entering this new market. As part of their analysis, they decide to use the PESTLE framework to assess the external factors that could impact their decision. How can the PESTLE framework help ABC Corp assess the external factors affecting its decision to expand into a new country? **(5 Marks)**

(b) A leading smartphone manufacturer has partnered with a reputed software firm to jointly develop a next-generation AI-enabled operating system. Both companies maintain their independent operations but collaborate closely on product design, development, and marketing. The partnership aims to leverage shared resources, complementary expertise and expanded market access for mutual benefit. Identify and explain the form of cooperative strategy being used in this scenario.

(5 Marks)

(c) GreenEdge Solutions, a mid-sized technology company, has implemented a new strategic plan focused on achieving sustainable growth and strengthening its market presence. The leadership team is determined to monitor the effectiveness of their strategies to ensure they align with the organization's overall goals and objectives. They seek a systematic approach to assess key performance areas critical to their success. What are Strategic Performance Measures (SPM), and how can GreenEdge Solutions effectively use them to evaluate and enhance the success of their strategic plan? **(5 Marks)**

2. (a) Imagine you are a strategic consultant advising a retail company that is facing increasing competition from online retailers. The company is considering several strategic options to improve its market position. Using the concept that strategy is partly proactive and partly reactive, explain how the company can develop a strategic approach to address this challenge. **(5 Marks)**

   (b) Changes in environmental forces often require businesses to make modifications in their existing strategies. In view of the same explain the areas to be focused while considering concept of strategic change. Also explain the steps to initiate strategic change process. **(5 Marks)**

3. (a) CDE Holdings operates in various sectors, including manufacturing fitness equipment, organic foods, eco-friendly products and children's educational tools. The organization is currently in the process of recruiting Chief Executive Officer. In this scenario imagine yourself as a HR consultant for CDE Holdings. Identify the strategic level that encompasses this role within CDE Holdings. Provide an overview of the key duties and responsibilities falling under the Chief Executive Officer's scope. **(5 Marks)**

   (b) Explain the concept of Experience Curve and highlight its relevance in strategic management. **(5 Marks)**

4. (a) Distinguish between Concentric Diversification and Conglomerate Diversification.

   (5 Marks)

   (b) How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively?

OR

A beverage company is launching a new line of energy drinks targeted at health-conscious consumers. The strategic manager wants to study the market position of rival companies in the energy drink segment. Which tool can be used for this analysis, and what is the procedure to implement it effectively? **(5 Marks)**