Mock Test Paper - Series I: March 2025

Date of Paper: 19th March, 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.

Reema Industries is into trading business. Since its establishment it has seen a phenomenal growth in both its market share and profitability. The company enjoys the confidence of its shareholders who have been rewarded with growing dividends year after year. The company has never defaulted on its loan payments and enjoys a favourable face with its lenders, which include financial institutions, commercial banks and other private debenture holders. Now the Reema Industries is looking to expand their business and for which they need further funds. Mr. Rishi, the CEO of the company wants their senior management to prepare the report including ratio analysis to be presented before investors. The Balance Sheet and other financial information are shown below.

Liabilities	₹	Assets		₹
Share Capital	1,00,000	Fixed Assets Less: Depreciation	1,70,000 14,000	1,56,000
Reserve and Surplus	80,000	Current Assets:		
9% Preference Share Capital	20,000	Cash		22,000
8% Debentures	50,000	Investments		25,000

Current Liabilities:		Sundry Debtors	30,000
Creditors	10,000	Stock	50,000
Bills Payable	15,000		
Outstanding Expenses	5,000		
Provision for Tax	3,000		
	2,83,000		2,83,000

Other information:

1. Net sales ₹ 1,00,000
2. Cost of goods sold ₹ 66,500
3. Net income before tax ₹ 20,000
4. Average creditor days is 60 days. Assume 360 days in a year.
5. Tax rate 30%

From the above financial information, Senior management asked you to calculate the following ratio for their analysis:

1. What is the Liquid ratio of the company?
   (a) 2 times
   (b) 2.33 times
   (c) 3.22 times
   (d) 3.84 times
2. What is the Sales to Proprietary ratio and Interest coverage ratio of the company?
   (a) 0.5 : 1 and 6 times
   (b) 0.8 : 1 and 4 times
   (c) 1.5 : 1 and 3.5 times
   (d) 1.2 : 1 and 2.5 times
3. What is the Debtor and Creditor turnover ratio of the company?
   (a) 2 times and 6 times
   (b) 3 times and 3.33 times
   (c) 3.33 times and 6 times
   (d) 2 times and 3 times

4. What is the Working Capital Turnover ratio (based on sales) of the company?

   (a) 1.06 times

   (b) 1.25 times

   (c) 0.9 times

   (d) 2.2 times

5. What is the Return on Investment of the company?

   (a) 3.5%

   (b) 14%

   (c) 10%

   (d) 7% **(5 x 2 = 10 Marks)**

6. Z Ltd.'s operating income (before interest and tax) is ₹ 9,00,000. The firm's cost of debt is 10 per cent and currently firm employs ₹ 30,00,000 of debt. The overall cost of capital of firm is 12 per cent. What is the cost of equity.

   (a) 13.3%

   (b) 15.2%

   (c) 16.0%

   (d) 12.5% **(2 Marks)**

7. A company operates at a production level of 1,000 units. The contribution is ₹ 60 per unit, operating leverage is 6, and combined leverage is 24. If tax rate is 30%, what would be its earnings after tax?

   (a) ₹ 1,600

   (b) ₹ 1,750

   (c) ₹ 1,500

   (d) ₹ 1,230 **(2 Marks)**

8. A Company issues ₹ 10,00,000, 12% debentures of ₹ 100 each. The debentures are redeemable after the expiry of fixed period of 7 years. The Company is in 35% tax bracket. Calculate the cost of debt after tax, if debentures are issued at 10% Premium.

   (a) 9.00%

   (b) 7.80%

   (c) 9.71%

   (d) 6.07% **(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) M Ltd. belongs to a risk class for which the capitalization rate is 12%. It has 40,000 outstanding shares and the current market price is ₹ 200. It expects a net profit of ₹ 5,00,000 for the year and the Board is considering dividend of ₹ 10 per share.

M Ltd. requires to raise ₹ 10,00,000 for an approved investment expenditure. ILLUSTRATE, how the MM approach affects the value of M Ltd. if dividends are paid or not paid. **(5 Marks)**

(b) The following information is available for Punyakalash Limited

Margin of Safety	0.40
Financial Leverage	1.50
Debt	1,50,000
Tax Rate	25%
Earnings Yield	12%
Interest Rate (Post tax)	9%
MPS	125
PV Ratio	30%

PREPARE Income statement and find out the number of equity shares.

(5 Marks)

(c) From the following information for financial year 2023-24,

Financial Leverage (FL) = 4

P/V Ratio = 40%

Tax rate = 30%

Depreciation (part of manufacturing overheads) = ₹ 10,000

Preference dividend is 15% of Operating Profit

Cash Breakeven Sales = ₹ 2,25,000

Equity Share Capital = ₹ 1,00,000

Reserves & Surplus as on 31.03.2023 = ₹ 35637

Particulars	Amount (₹)
Sales	???
(-) Variable cost	???
Contribution	???
(-) Fixed cost	???
EBIT	???
(-) Interest exp	57,400
EBT	???
(-) Tax	???
EAT	???
(-) Preference dividend	???
Earnings for equity shareholders	???

CALCULATE –

i. Complete the Income statement for FY 2023-24

ii. Operating Leverage & Combined Leverage

iii. Percentage change in EPS, if sales increase and decreases by 7%

iv. Calculate Return on Equity Shareholders funds on 31.03.24

v. Amount of Debt, if post tax interest rate is 6.65% **(5 Marks)**

2. (a) Q Ltd. has the following capital structure at book-value as on 31st March 2024:

Particulars	(₹)
Equity share capital (10,00,000 shares)	4,00,00,000
12% Preference shares	80,00,000
11% Debentures	2,00,00,000
	6,80,00,000

The equity shares of the company are sold for ₹ 400. It is expected that next year the company will pay a dividend of ₹ 20 per equity share, which is expected to grow by 5% p.a. forever. Assume a 30% corporate tax rate.

Required:

(i) COMPUTE weighted average cost of capital (WACC) of the company based on the existing capital structure.

(ii) COMPUTE the new WACC, if the company raises an additional ₹ 50 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹ 25 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 300 per share. **(6 Marks)**

(b) ABC Pvt. Ltd. is considering relaxing its present credit policy for accounts receivable and is in the process of evaluating two proposed policies. Currently, the company has annual credit sales of ₹ 50 lakhs and accounts receivable turnover ratio of 4 times a year. The current level of loss due to bad debts is ₹ 1,50,000. The company is required to give a return of 20% on the investment in new accounts receivable. The company's variable costs are 70% of the selling price. Given the following information, IDENTIFY which is the better policy?

(Amount in ₹)

Particulars	**Present Policy**	**Proposed Policy 1**	**Proposed Policy 2**
Annual credit sales	50,00,000	60,00,000	67,50,000
Accounts receivable turnover ratio	4 times	3 times	2.4 times
Bad debt losses	1,50,000	3,00,000	4,50,000

(4 Marks)

3. (a) Perfact Limited is considering a total investment of ₹ 27 lakhs. You are required to CALCULATE the level of earnings before interest and tax (EBIT) at which the EPS indifference point between the following financing alternatives will occur:

(i) Equity share capital of ₹ 18,00,000 and 14% debentures of ₹ 9,00,000.

Or

(ii) Equity share capital of ₹ 15,00,000, 16% preference share capital of ₹ 5,00,000 and 14% debentures of ₹ 7,00,000.

Assume the corporate tax rate is at 25% and par value of equity share is ₹ 10 in each case. Also CALCULATE the Financial Break-Even Point (FBEP) for both the plans. **(3 Marks)**

(b) Millenial Limited, a Quick commerce (Q-Comm) startup company engaged into the business of deliveries is in a need of a delivery vehicles. The company is considering two different options –

Option A - Buying a brand new 4 electric delivery vehicles that would cost ₹ 1,50,000 each with a GST of 5% not eligible for set off. Electric vehicles would be eligible for a government subsidy of ₹ 20,000 each but only to be received at the end of the year. The life of the delivery vehicle would be 10 years. Scrap value is to be considered at 10% on Gross cost.

Option B – The other alternative is to buy the vehicles needed on a secondhand basis for ₹ 1,00,000 each which will remain in service for a period of 5 years and after 5 years company done capital work on the vehicles for ₹ 70,000 each after which they can be used for another 5 years. The scrap value of the spare parts replaced at the end of 5 years would be ₹ 32,000 whereas at the end of the 10th year scrap value of vehicle would be ₹ 4,000 each.

Millenial Limited's applicable both corporate tax rate and capital gain tax rate is at 15% whereas the vehicles would be depreciated at 20% on WDV basis. The Q-Comm delivery industry's average required rate of return is 15%. You are required to evaluate both the options and advise on the best one.

The revenue and cash expenses for the Q-comm company is expected at ₹ 15,00,000 p.a. and ₹ 10,00,000 p.a. respectively. **(7 Marks)**

4. (a) EXPLAIN Agency Problem. Also EXPLAIN, how it can be addressed. **(4 Marks)**

(b) WHAT is debt securitisation? EXPLAIN the basics of debt securitisation process. **(4 Marks)**

(c) EXPLAIN the concept of "Double edged sword" in Financial leverage analysis.

(2 Marks)

OR

(c) DISCUSS optimal capital structure and HOW to analyse it. **(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)

In the bustling metropolis of Techville, a once small startup named Athena Corporation embarked on a journey that exemplified the essence of strategic management.

Athena Corporation began its journey as a manufacturer of cutting-edge tech gadgets. In the initial years, they classifide stakeholders based on their power and interest. By nurturing important stakeholders like investors, and minimizing conflicts amongst them, the company-maintained stability. This strategic stakeholder analysis proved instrumental during the introduction and growth phases of their product life cycle.

As the product reached maturity, Athena Corporation faced the inevitable challenges of saturation. However, they decided to innovate, investing heavily in research and development. Their commitment to value creation resulted in a series of product enhancements, rekindling customer interest and extending the product's life cycle.

The company recognized the importance of distribution. They diversified their distribution strategy, forging partnerships with global retailers and e-commerce giants. This enabled them to reach a wider audience and adapt to changing market conditions, reinforcing their presence during the product decline phase.

The most significant obstacle Athena Corporation faced was existing big giants in the tech industry. To combat this, they leveraged their brand's reputation and strong distribution networks. Additionally, they initiated collaborations with smaller startups, enhancing innovation and expanding their reach.

To enter new international markets, Athena Corporation conducted a further comprehensive analysis. By using its strengths of branding, addressing not being able to manage costs, & capitalizing on opportunities for AI (Artificial Intelligence) and motivating its talented employees, it mitigated to an extent the threats of competition in the global markets. And so, it is safe to say that the next 10 years are going to be a defining moment in Athena Corps' life.

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

(i) How did Athena Corporation effectively utilize Mendelow's Matrix to manage stakeholders based on their power and interest, ensuring long-term stability and success?

(a) By prioritizing low-power, high-interest stakeholders, thus enhancing their influence.

(b) By applying SWOT analysis to assess stakeholder dynamics and adapt their strategies.

(c) By minimizing conflicts with low-power, low-interest stakeholders and nurturing high-power, high-interest stakeholders.

(d) By frequently changing their stakeholder classification to maintain flexibility. **(2 Marks)**

(ii) In which specific phase of the product life cycle did Athena Corporation invest significantly in research and development, resulting in a rejuvenation of their product offering?

(a) The introduction phase, to establish their market presence.

(b) The growth phase, to capture market share.

(c) The maturity phase, to extend the product's life cycle.

(d) The decline phase, to liquidate existing inventory. **(2 Marks)**

(iii) When it comes to diversifying their distribution strategy, what was the key approach adopted by Athena Corporation to reach a broader audience and adapt to changing market conditions?

(a) Heavy investments in advertising campaigns.

(b) Acquisition of competitors in the industry.

(c) Development of an elaborate loyalty program for existing customers.

(d) Establishment of strong distribution networks with global retailers and e-commerce giants. **(2 Marks)**

(iv) What unique challenge did Athena Corporation face in the tech industry that presented a significant barrier to entry?

(a) An oversaturated market with too many competitors.

(b) A rapidly changing technology landscape.

(c) High barriers to entry due to the complex and competitive nature of the industry

(d) A lack of innovative product ideas **(2 Marks)**

(v) Athena Corporation conducted a comprehensive strategic analysis before expanding globally. What specific framework did they employ?

(a) Porter's Five Forces analysis

(b) PESTEL analysis

(c) SWOT analysis

(d) Competitive landscape analysis **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) A retail chain notices that its competitors have introduced same-day delivery options. In response, the company quickly adjusts its logistics operations and collaborates with local courier services to match the offering and avoid losing customers. What type of strategy is the company implementing?

(a) Proactive strategy

(b) Reactive strategy

(c) Functional level strategy

(d) Contingency strategy **(2 Marks)**

(ii) You are the head of operations of a company. When you focus on total or aggregate management functions in the sense of embracing the integrated activities of a complete department et al, you are practicing: -

(a) Strategic Control

(b) Management control

(c) Administrative Control

(d) Operations Control **(2 Marks)**

(iii) Which strategy is implemented after the failure of turnaround strategy?

(a) Expansion strategy

(b) Diversification strategy

(c) Divestment strategy

(d) Growth strategy **(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 Enterprises operates in multiple industries. Its automobile division functions independently, with separate teams for electric and fuel-based vehicles. The IT division follows a structure where employees report to both project heads and department managers for various software projects. Meanwhile, its startup incubator encourages open collaboration among employees at all levels. Identify the network relationships used in XYZ Enterprises' divisions and explain why they are appropriate. **(5 Marks)**

   (b) A Mumbai-based conglomerate, PQR Ltd., has announced a major restructuring of its business operations. The company has decided to split its business into four separate units: Manufacturing, Retail, Services, and Technology. Each unit will operate as a separate business, with delegated responsibility for day-to-day operations and strategy to the respective unit managers. Identify the organization structure that PQR Ltd. has planned to implement. Discuss any four attributes and the benefits the firm may derive by using this organization structure. **(5 Marks)**

   (c) ABC Fashion, a prominent brand in the domestic market, is now venturing into the international arena. As part of its global expansion strategy, the company is introducing a variety of products tailored to meet the unique tastes and preferences of customers in different regions. By customizing its offerings for each market, ABC Fashion aims to capture a broader audience and establish a strong international presence. Which expansion strategy from Ansoff's Product-Market Growth Matrix best aligns with ABC Fashion's approach? **(5 Marks)**

2. (a) What are the key characteristics of business products that contribute to the overall competitiveness and dynamics of the market? **(5 Marks)**

   (b) 'A company's mission statement is typically focused on its present business scope.' Explain the significance of a mission statement. **(5 Marks)**

3. (a) Explain the pointers for navigating change during digital transformation. **(5 Marks)**

   (b) Differentiate between Concentric diversification and Conglomerate diversification. **(5 Marks)**

4. (a) A company has recently launched a new product in the market. Initially, it faced slow sales growth, limited markets, and high prices. However, over time, the demand for the product expanded rapidly, prices fell, and competition increased. Identify the stages of the product life cycle (PLC) that the company went through.

(5 Marks)

(b) There are four specific criteria of sustainable competitive advantage that firms can use to determine those capabilities that are known as core competencies. Explain.

OR

(b) How can Mendelow's Matrix be used to analyze and manage the stakeholders effectively? **(5 Marks)**