Mock Test Paper - Series II: April, 2025

Date of Paper: 7th April, 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

Ashrav Machines Private Limited (AMPL) was started as Joint venture company in 2017 by a leading group head quartered at Mumbai, engaged into the business of automatic washing machine product segment. The company received state-of-the-art technological know-how from a well-known Japanese company named Suzutsu Inc which was its JV partner. The company had acquired superior technology through JV, and its sales were expected to grow at 10 per cent per annum. The Company has two types of customer base, retail customers and dealership customers. The company experienced a significant growth in its sales during the first 5 years of its operations, and its actual growth rate averaged about 30 per cent per annum. The company had cost and technological advantages, and therefore, could keep its prices significantly lower as compared to its competitors. Over this period, the company established its name, and its products became well-known in the market.

As the competition intensified in the washing machine market, and the general market slow-down conditions engulfed the entire economy, AMPL started experiencing a decline in its sales from the beginning of FY 2022. The company identified poor inventory management on the retail front like piling up of inventory stocks, very high import of raw material, high selling price, etc. & poor receivables management on the dealership front like poor credit policy & collection process, bad debts, etc. as a major issue causing financial problems and decline. The company decided to work out a plan to reduce the inventory levels and rejig the receivables process and come out with feasible solutions. The concerned leadership teams in the company presented the following plans:

(1) Exploring selling the washing machines at discounted price. The company plans to offer a 5% average discount on its current price thereby resulting in a discounted price of ₹ 15,675 per machine. However, this didn't create any significant impact on sales as expected. The previous studies on market behavior to price responses in this category of product suggested less sensitivity to price reduction or discounts in the lower range. However, a price reduction above 10 per cent indicated a significant association with the increase in demand. Using these findings as the basis of their argument, the marketing team proposed a plan to provide discounts of up to 12 per cent. It provided an estimate of about 1,000 units to be sold every quarter during the year after implementing the suggestion of proposed discount.

(2) Owing to the recent trends observed in the exchange-sales scheme in the television and other electronic segments, the company wants to explore this scheme for the washing machine segment as well. Upon subsequent research, the marketing team argued that there was a good chance of an exchange scheme becoming popular provided the customers were offered an attractive exchange scheme as most of the existing machines owned by the households did not have new features which the company's product offered. The marketing team gave an estimate of selling about 4,650 units in the next one year, provided the scheme offered, off-setting ₹ 3,000 to ₹ 4,000 of the prices to customers who purchase the company's product in exchange for their existing machines. The actual deduction, however, would depend on the condition of the machines and for that, the company estimated that an average offset of ₹ 3,500 per machine would be needed.

(3) The third proposal pertains to an all-round reduction in inventory levels. If the production takes place as per the sales plan, the total inventory holding period of the company works out about 3½ months. Of this, the finished goods holding period alone is 2 to 2½ months. The company, therefore, must hold finished goods for this period to sell its products in the market. Recently, due to a slow-down in the market, this period had increased to 4 – 4½ months. As a result, the working capital requirements of the company have increased significantly. The company recently explored the possibility of selling the goods to its customers under a scheme which would deliver the machine after 1½ months of placing the order. A pilot test was carried out with a select group of customers. Based on the

results of this pilot study, the proposed scheme would offer the following package to a customer: on paying an advance of ₹ 3,000, the customer could order the product which would be delivered after 1½ months of time. As per the terms and conditions of the scheme, the customer would pay ₹ 9,500 at the time of delivery of the product. Through this scheme, the customer would get a benefit of ₹ 4,500 for this waiting period. The field tests had indicated that a section of customers would not mind waiting for 1 to 1½ months and taking this benefit. The marketing team gave an estimate that about 400 machines could be sold per month through this scheme.

(4) The current dealership sales of the company are ₹ 3,65,00,000 and it has a present policy of extending 60 days credit but most of its dealers in the recent period have stretched payments and the average collection period was about 120 days. Ninety per cent of the firm's sales are on a credit basis. Out of this, 15 per cent is sold to the customers whose financial position is not very sound and the entire bad debt losses amount to about 2 per cent of sales to these customers. The cost of Sales is 80% and the current collection expenses amount to ₹ 5,00,000 per year. After consulting the marketing and accounting staff and analyzing the status of the competition, the company has decided to change its credit policy for the dealership customers.

Policy A : To offer cash discount to motivate customers to pay early. The new credit terms would be "2/15, net 60". A quick study of sample customers indicated that about two-thirds of them might like to avail cash discounts. This change in policy would not change the expected sales, but the average collection period is likely to be reduced to 80 days for the remaining customers. There will be no changes in bad debts, but the collection cost will be reduced by 30% to the existing collection expense.

Policy B : To relax its credit standards by 20 Days to expand its sales. This is expected to increase sales by 10 per cent. The marginal customers, which would also include new customers, are not expected to take advantage of cash discounts and are likely to continue to take on an average of 150 days to pay. In the case of these customers, bad debt losses are expected to increase to 2.5 per cent on the sales to financially unsound customers, which will remain the same in proportion. The company would enforce collections with more vigour and diligence. It is expected that collection expenses will increase by ₹ 1,00,000 per annum.

The company generally requires a rate of return of 15 per cent from its investments and assume 360 days in a year.

Based on the above scenario, answer to the following MCQs:

1. Incremental benefit of adopting credit Policy A to the company is _________

   (a) ₹ 6,24,500

(b) ₹ 58,500

(c) ₹ 46,57,450

(d) ₹ (-) 6,24,500

2. Incremental benefit of adopting credit Policy B to the company is _________

 (a) ₹ 27,294

 (b) ₹ 8,70,444

 (c) ₹ 46,84,744

 (d) ₹ 2,31,444

3. Evaluate all the proposed options of inventory management and select the best sequence as per their rankings based on benefit analysis to the company in the form of sales.

 (a) Proposal 1, 2 & 3

 (b) Proposal 2, 3 & 1

 (c) Proposal 2, 1 & 3

 (d) Proposal 3, 2 & 1

4. What are the bad debt expenses of policy A and policy B?

 (a) ₹ 98,550 and ₹ 98,550

 (b) ₹ 1,35,506 and ₹ 98,550

 (c) ₹ 98,550 and ₹ 1,35,506

 (d) ₹ 1,35,506 and ₹ 1,35,506

5. The optimum combination of inventory and credit policy comes out to be ________

 (a) Proposal 3 & Credit Policy 'A'

 (b) Proposal 3 & Credit Policy 'B'

 (c) Proposal 2 & Credit Policy 'B'

 (d) Proposal 2 & Credit Policy 'A' **(5 x 2 = 10 Marks)**

6. Mr. A is holding 2,00,000 shares of ABC Ltd. It is presently trading on NSE at cum dividend price of ₹ 100 per share. Mr. A has a policy to re-invest the amount of any dividend received into the shares of ABC Ltd. again. If ABC Ltd. has declared

a dividend of ₹ 20 per share, determine the no. of shares that Mr. A would hold after he invests dividend in the shares of ABC Ltd.

(a) 1,00,000

(b) 2,50,000

(c) 2,80,000

(d) 50,000 **(2 Marks)**

7. The details of XYZ Ltd. are as follows:

Variable Cost Ratio = 60%

Operating Leverage = 5

Combined Leverage = 15

EBIT = ₹ 30,000

Tax Rate = 30%

Calculate the amount of interest.

(a) ₹ 40,000

(b) ₹ 30,000

(c) ₹ 20,000

(d) ₹ 24,000 **(2 Marks)**

8. Out of the following information, calculate Risk free rate:

Rm = 10%

Ke = 15%

β = 2

(a) 5%

(b) 7.5%

(c) 10%

(d) 15% **(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 firm can make investment in either of the following two projects. The firm anticipates its cost of capital to be 10%. The pre-tax cash flows of the projects for five years are as follows:

Year	0	1	2	3	4	5
Project A (₹)	(2,00,000)	35,000	80,000	90,000	75,000	20,000
Project B (₹)	(2,00,000)	2,18,000	10,000	10,000	4,000	3,000

Ignore Taxation.

An amount of ₹ 35,000 will be spent on account of sales promotion in year 3 in case of Project A. This has not been taken into account in calculation of pre-tax cash flows.

The discount factors are as under:

Year	0	1	2	3	4	5
PVF (10%)	1	0.91	0.83	0.75	0.68	0.62

You are required to CALCULATE for each project:

(i) The Discounted Payback period

(ii) Desirability factor

(iii) Net Present Value **(5 Marks)**

(b) Bhanu Limited has issued 50,000; 10% convertible bonds of ₹ 100 each with a maturity period of 5 years. At the maturity, the bondholders will have an option to convert the bonds into the equity shares in the ratio of 1:4 (i.e 4 equity shares for each debenture). The equity shares of Bhanu Limited are listed and are currently traded at ₹ 30 each and historically the growth of the company's share has been 5% per annum over the years.

Of the total number of convertible bonds issued, 75% opt in for converting their bonds to the common stock at an agreed price which shall be at 5% premium to the intrinsic price at that point in time. However, the investors need to hold the shares for at least 2 years from the date of conversion.

The balance bonds would be redeemed by the company at a premium of 25% with a redemption cost of 2% incurred additionally at the time of redemption. Tax rate applicable to the company is at 25%. COMPUTE the cost of the convertible bonds using Approximation Method as well as the YTM method. **(5 Marks)**

(c) CALCULATE the operating leverage, financial leverage and combined leverage from the following data under Situation I and II and Financial Plan A and B:

Installed Capacity	4,000 units
Actual Production and Sales	75% of the Capacity
Selling Price	₹ 30 per unit
Variable Cost	₹ 15 per unit

Fixed Cost:

Under Situation I	₹ 15,000
Under Situation-II	₹ 20,000

Capital Structure:

	Financial Plan	
	A (₹)	**B (₹)**
Equity	10,000	15,000
Debt (Rate of Interest at 20%)	10,000	5,000
	20,000	20,000

(5 Marks)

2. (a) The following information is supplied to you:

	(₹)
Total Earnings	2,00,000
No. of equity shares (of ₹ 100 each)	20,000
Dividend paid	1,50,000
Price/ Earnings ratio	12.5

Applying Walter's Model:

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

(ii) COMPUTE 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 8 instead of 12.5? ANALYSE.

(4 Marks)

(b) Zordon Ltd. has net operating income of ₹ 5,00,000 and total capitalization of ₹ 50,00,000 during the current year. The company is contemplating to introduce debt financing in capital structure and has various options for the same. The following information is available at different levels of debt value:

Debt value (₹)	Interest rate (%)	Equity capitalization rate (%)
0	-	10.00
5,00,000	6.0	10.50
10,00,000	6.0	11.00
15,00,000	6.2	11.30
20,00,000	7.0	12.40
25,00,000	7.5	13.50
30,00,000	8.0	16.00

Assuming no tax and that the firm always maintains books at book values, you are REQUIRED to calculate:

(i) Amount of debt to be employed by firm as per traditional approach.

(ii) Equity capitalization rate, if MM approach is followed. **(6 Marks)**

3. (a) Following information and ratios are given in respect of Simandhar Limited for the year ended 31.03.2025:

Particulars	Ratio
Liquid Ratio	2.0
Cash Asset Ratio	0.36
Current Ratio	3.50
Receivables Collection Period	30 days
Proprietary Ratio	0.72
Equity Dividend	₹ 2,50,000
Equity Dividend Coverage Ratio	2.10
Non - Current Assets turnover Ratio	0.80
EPS	₹ 3.0 per share
Stock Turnover Ratio	6.0 times
GP Ratio	$1/5^{th}$ of Sales

Assume 360 days in a year. Closing inventory is 20% more than opening inventory.

You are required to COMPLETE the Balance Sheet as of 31st March, 2025.

BALANCE SHEET

As on 31st March, 2025

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
Equity Share Capital (Face Value ₹ 10)	???	Fixed Assets	???
Reserves	???	Receivables	???
Long term Debentures	???	Inventory	???
Current Liabilities	2,80,000	Cash & Bank balance	???
		Short term advances	???
Total	**????**	**Total**	**????**

(8 Marks)

(b) WRITE a short note on internal rate of return. **(2 Marks)**

4. (a) EXPLAIN following types of leases:

(i) Sales and Lease Back

(ii) Leveraged Lease

(iii) Sales-Aid Lease

(iv) Close-Ended and Open-Ended Leases **(4 Marks)**

(b) EXPLAIN any four Features of Debentures or Bonds. **(4 Marks)**

(c) DISCUSS the conflicts in Profit versus Wealth maximization principle of the firm. **(2 Marks)**

OR

(c) EXPLAIN in brief the concept of Over Capitalisation. **(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)

Founded with a dream to bring the world's finest spices to kitchens worldwide, Rachini Group has evolved into a diversified conglomerate, spanning industries from spices to car dealerships and real estate. This case study delves into the journey of Rachini Group.

Rachini Group's clear objective from its inception was to become a leading player in the spice trade industry. They aimed to source, package, and distribute the highest quality spices to homes and businesses globally. This unwavering focus on quality and customer satisfaction allowed them to establish themselves as a trusted brand, defining their path to success. The company, under the strict stewardship of Mangat Singh, emphasized quality control, adherence to core values, and a disciplined approach to business. While this management style limited creativity within middle management, it ensured consistency and quality throughout the organization, especially in their core spice business.

Recognizing the potential for growth and value addition, Rachini Group expanded by investing in acquiring spice farms and processing facilities, ensuring a robust supply chain. This allowed them to control quality and costs, creating a significant competitive advantage. As a result of their expansion and diversification, Rachini Group began generating positive cash flows. These financial gains provided the necessary resources for further expansion and allowed the company to venture beyond its spice business.

In their quest for expansion, Rachini Group forged strategic partnerships and alliances with influential politicians and royal families in Arabia. These connections provided valuable insights, eased market entry, and facilitated regulatory approvals, giving the company a competitive edge. The group diversified into other sectors like car dealerships and real estate, seeking to tap into lucrative markets and reduce dependency on a single industry.

Despite their success, Rachini Group faced backlash from social groups who believed that the concentration of wealth in the hands of a few was dangerous for society. They were accused of worsening income inequality. This criticism prompted the company to reevaluate its approach and consider the broader impact of its business activities. In response, the family-owned business initiated a philanthropic arm, focusing on improving the living conditions, education, and healthcare in the communities they operated. This philanthropic endeavor aimed to balance their business success with social responsibility, nurturing a more positive image and addressing the criticisms they faced.

Rachini Group continues to thrive with a remarkable compound annual growth rate (CAGR) of 12%. Their diversified business portfolio, including car dealerships and real estate, now constitutes 40% of their total group revenue. The company remains committed to its spice trade roots while exploring new opportunities. Their plan to go public in 2026 is a testament to their ambition and determination to remain a key player in the global business landscape.

Rachini Group's remarkable evolution serves as a compelling case study in the world of business, showcasing the power of clear objectives, and adaptability in the face of social challenges. As they move towards their IPO in 2026, they continue to be a fascinating story of business success with a commitment to the greater good.

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

(i) How did Rachini Group control quality and costs in their spice business?

(a) By reducing their workforce - Human Resource Management

(b) By outsourcing production - Organizational Structure Planning

(c) By investing in spice farms and processing facilities - Vertical Integration

(d) By cutting prices - Best Cost Provider Strategy **(2 Marks)**

(ii) Rachini Group’s emphasis on acquiring spice farms and processing facilities to gain supply chain control aligns with which ‘S’ in McKinsey’s 7S Framework?

(a) Systems

(b) Structure

(c) Strategy

(d) Staff **(2 Marks)**

(iii) How did Rachini Group gain a competitive edge in their expansion efforts?

(a) Through extensive marketing campaigns

(b) By entering new international markets

(c) By forging strategic partnerships and alliances

(d) By increasing their workforce **(2 Marks)**

(iv) The strategic alliances with royal families and politicians most likely helped Rachini Group reduce the threat of:

(a) Substitute products

(b) Bargaining power of buyers

(c) New entrants

(d) Industry rivalry **(2 Marks)**

(v) What was Rachini Group's initial Vision when it was founded?

(a) To diversify quickly into unrelated businesses

(b) To become a leading player in the spice trade industry

(c) To establish a philanthropic arm

(d) To go public by 2026 **(2 Marks)**

(B) Compulsory Application Based Independent MCQs

(i) A multinational corporation is debating whether to invest significant time and resources into developing a new strategic plan. Some argue it diverts attention from current operations, while others believe it is essential for long-term success. Despite being resource-intensive, it remains crucial for sustained growth. What does this situation best illustrate?

(a) Strategic management ensures immediate profitability

(b) Strategic management is time-consuming but necessary

(c) Operational efficiency is more important than strategic planning

(d) Short-term focus leads to long-term success **(2 Marks)**

(ii) A group of environmental activists consistently raises concerns about a company's environmental impact. While their opinions are acknowledged, they lack the authority to directly influence company decisions. The company monitors their concerns and engages with them when necessary to maintain its reputation. Which quadrant of Mendelow's Matrix best categorizes these stakeholders?

(a) High Interest, Low Power

(b) Low Interest, Low Power

(c) High Interest, High Power

(d) Low Interest, High Power **(2 Marks)**

(iii) ABC Corp., a pharmaceutical company, faces strict regulatory approvals before launching a new drug. Meanwhile, government policies promote local drug manufacturing, and digital advancements are transforming research. Which PESTLE factor is most relevant to the regulatory approvals for new drugs?

(a) Political

(b) Legal

(c) Technological

(d) Economic **(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 Tech, a leading smartphone manufacturer, is navigating a highly competitive market where innovation and cost efficiency are key. Customers prioritize battery life, camera quality, and seamless software integration when choosing a brand. To stay ahead, ABC Tech invests heavily in research and development, optimizes its supply chain for cost-effective production, and enhances customer service. Identify the *Key Success Factors (KSFs)* for ABC Tech based on the industry conditions described. How can the company achieve a *sustainable competitive advantage* by leveraging these factors? **(5 Marks)**

(b) *EcoTrend,* a growing e-commerce company, competes with industry giants by offering premium, eco-friendly products at high prices, targeting environmentally conscious consumers. Meanwhile, its competitor, *BudgetBazaar*, focuses on providing the lowest prices by optimizing costs and streamlining operations. Another player, *VogueVista*, differentiates itself through exclusive, fashion-forward designs that attract trend-savvy customers. Identify the generic strategies used by *EcoTrend, BudgetBazaar,* and *VogueVista* based on Michael Porter's Generic Strategies framework. Explain how each company gains a competitive advantage. **(5 Marks)**

(c) *Nexora Innovations*, a mid-sized IT services firm, decided to implement a cloud-based project management system to enhance collaboration and streamline operations. However, many employees resisted the shift, fearing job redundancies and struggling to adapt to the new system. Despite initial communication, productivity dipped, and frustration grew among staff. What key change management strategies should *Nexora Innovations* adopt to ensure a smooth digital transformation and minimize disruption? **(5 Marks)**

2. (a) NovaTech Pvt. Ltd. is a well-established educational technology (EdTech) company in the India. The company has been performing well in the online learning industry. The management of NovaTech Pvt. Ltd. has now decided to expand its business by launching a luxury skincare brand named "GlowNova." Identify and explain the growth strategy adopted by NovaTech Pvt. Ltd. **(5 Marks)**

(b) Aarav is planning to launch his new organic food brand. He is evaluating different cities across the country to establish his business in the most suitable environment. One promising option is Pune, a city known for its health-conscious consumers, strong distribution networks, and government initiatives supporting sustainable businesses. With favorable policies, tax benefits, and access to experienced mentors, Pune seems like an ideal choice for Aarav to launch and scale his organic food brand successfully. Define the term Business Environment with respect to the above scenario. Explain how a business's interaction with its environment can contribute to the development of a successful strategy.

(5 Marks)

3. (a) Major core competencies are identified in three areas - competitor differentiation, customer value and application to other markets. Discuss. **(5 Marks)**

(b) '*Innovation leads to unnecessary expenses that do not give as many returns.*' Do you agree with the statement? Give reasons in support of your answer. **(5 Marks)**

4. (a) Differentiate between Strategy Formulation and Strategy Implementation.

(5 Marks)

(b) What is a strategic vision, and what are the essential components that make it an effective tool for guiding an organization's future?

OR

Distinguish between Vision and Mission. **(5 Marks)**