

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)**

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INTERMEDIATE: GROUP – II

PAPER – 6: FINANCIAL MANAGEMENT & STRATEGIC MANAGEMENT

PAPER 6A : FINANCIAL MANAGEMENT

Suggested Answers/ Hints

PART I – Case Scenario based MCQs.

Case Scenario 1

Working Notes:

$$\text{Depreciation on Machine X-Pro} = \frac{20,00,000}{5}$$

$$= 4,00,000$$

$$\text{Depreciation on Machine Z-Elite} = \frac{25,00,000}{5} = 5,00,000$$

Particulars	Machine X-Pro (₹)	Machine Z-Elite (₹)
Annual Savings:		
Direct Wages	7,00,000	9,00,000
Scraps	60,000	1,00,000
Total Savings (A)	7,60,000	10,00,000
Annual Estimated Cash Cost :		
Indirect Material	30,000	90,000
Indirect Labour	40,000	50,000
Repairs and Maintenance	45,000	85,000
Total Cost (B)	1,15,000	2,25,000
Annual Cash Savings (A-B)	6,45,000	7,75,000
Less: Depreciation	4,00,000	5,00,000
Annual Savings before Tax	2,45,000	2,75,000
Less: Tax @ 30%	73,500	82,500

Annual Savings /Profits after tax	1,71,500	1,92,500
Add: Depreciation	4,00,000	5,00,000
Annual Cash Inflows	5,71,500	6,92,500

1. (C) 3.50 years

$$\begin{aligned}\text{Payback Period Machine X-Pro} &= \frac{\text{Total Initial Capital Investment}}{\text{Annual expected after tax net cashflow}} \\ &= \frac{20,00,000}{5,71,500} = 3.50 \text{ Years}\end{aligned}$$

2. (D) 3.61 Years

$$\text{Payback Period Machine Z-Elite} = \frac{25,00,000}{6,92,500} = 3.61 \text{ Years}$$

3. (A) X-Pro: 17.15%, Z-Elite: 15.40%

Accounting (Average) Rate of Return (ARR)

$$\text{ARR} = \frac{\text{Average Annual Net Savings}}{\text{Average investment}} \times 100$$

$$\text{Machine X-Pro} = \frac{1,71,500}{10,00,000} \times 100 = 17.15\%$$

$$\text{Machine Z-Elite} = \frac{1,92,500}{12,50,000} \times 100 = 15.4\%$$

4. (C) 1.03

Present Value Cash Inflow = Annual Cash Inflow x PV factor at 12%

Machine X-PRO Present Value Cash Inflow = 5, 71,500 x 3.605 = ₹ 20, 60,258

$$\text{PV Index} = \frac{\text{Present Value of Cash Inflow}}{\text{Investment}}$$

$$\text{PV Index Machine X-PRO} = \frac{20,60,258}{20,00,000} = 1.03$$

5. (D) 1.00

Machine Z-Elite Present Value Cash Inflow = 6,92,500 x 3.605 = ₹ 24,96,463

$$\text{PV Index Machine Z-Elite} = \frac{24,96,463}{25,00,000} = 0.998 = 1.0 \text{ approx.}$$

6. (D) 22%

$$K_e = \frac{D_1}{NP} + g$$

$$\begin{aligned} \text{Net proceeds per share} &= P_0 - \text{underpricing} - \text{Floatation cost} \\ &= 64 - 3 - 1 = 60 \end{aligned}$$

$$\begin{aligned} K_e &= \frac{6}{60} + 0.12 \\ &= 22\% \end{aligned}$$

7. (A) ₹ 16,800

Computation of Rate of Preference Dividend

$$\begin{aligned} \frac{(\text{EBIT} - \text{Interest}) (1 - t)}{\text{No. of Equity Shares (N}_1\text{)}} &= \frac{\text{EBIT} (1 - t) - \text{Preference Dividend}}{\text{No. of Equity Shares (N}_2\text{)}} \\ \frac{(\text{₹}2,40,000 - \text{₹}24,000) (1 - 0.30)}{40,000 \text{ shares}} &= \frac{\text{₹}2,40,000 (1 - 0.30) - \text{Preference Dividend}}{40,000 \text{ shares}} \\ \frac{\text{₹}2,16,000 (1 - 0.30)}{40,000 \text{ shares}} &= \frac{\text{₹}1,68,000 - \text{Preference Dividend}}{40,000 \text{ shares}} \\ \text{₹}1,51,200 &= \text{₹}1,68,000 - \text{Preference Dividend} \\ \text{Preference Dividend} &= \text{₹}1,68,000 - \text{₹}1,51,200 = \text{₹}16,800 \end{aligned}$$

8. (A) 4.50

$$\begin{aligned} \text{Operating Cycle Period} &= R + W + F + D - C \\ &= 50 + 18 + 22 + 45 - 55 = 80 \text{ days} \end{aligned}$$

Number of Operating Cycle in a Year

$$= \frac{360}{\text{Operating Cycle Period}} = \frac{360}{80} = 4.5 \text{ times}$$

PART II – Descriptive Questions

1. (a)

Particulars	1	2	3	4
EBIT	60,00,000	60,00,000	60,00,000	60,00,000
Less:				
Interest	6,00,000	9,75,000	12,60,000	14,70,000
Earning available for equity holders [A]	54,00,000	50,25,000	47,40,000	45,30,000
Equity capitalization rate [B]	12%	15%	16%	16%
Market Value of equity [A]/[B]	4,50,00,000	3,35,00,000	2,96,25,000	2,83,12,500
Market value of debt (given)	60,00,000	75,00,000	90,00,000	105,00,000
Total Market Value	5,10,00,000	4,10,00,000	3,86,25,000	3,88,12,500
Overall cost of capital = $\frac{\text{EBIT} \times 100}{\text{Total Market Value}}$	11.76%	14.63%	15.53%	15.46%

The capital structure having debt of ₹ 60,00,000 is recommended as overall cost of capital is minimum at 11.76%.

(b) (I) **Determination of earnings per share (EPS)**

Sales Level	1,50,000 Units	1,80,000 Units
	(₹)	(₹)
Sales Revenue	22,50,000	27,00,000
Variable Cost	12,00,000	14,40,000
Contribution	10,50,000	12,60,000
Fixed Cost	3,00,000	3,00,000
EBIT	7,50,000	9,60,000
Interest	1,50,000	1,50,000
EBT	6,00,000	8,10,000

Tax (30%)	1,80,000	2,43,000
EAT	4,20,000	5,67,000
No. of Shares	15,000	15,000
EPS (₹)	28.00	37.80

$$(i) \quad \text{The percentage increase in earnings per share} = \frac{37.8 - 28}{28} \times 100 \\ = 35\%$$

$$(ii) \quad \text{DFL at 1,50,000 units} = \frac{\text{EBIT}}{\text{EBT}} = \frac{\text{₹ 7,50,000}}{\text{₹ 6,00,000}} = 1.25$$

$$\text{DFL at 1,80,000 units} = \frac{\text{EBIT}}{\text{EBT}} = \frac{\text{₹ 9,60,000}}{\text{₹ 8,10,000}} = 1.19$$

$$(iii) \quad \text{DOL at 1,50,000 units} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{\text{₹ 10,50,000}}{\text{₹ 7,50,000}} = 1.40$$

$$\text{DOL at 1,80,000 units} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{\text{₹ 12,60,000}}{\text{₹ 9,60,000}} = 1.31$$

(II) With the increase in production and sales from 1,50,000 units to 1,80,000 units, the EPS has increased by 35%, indicating improved profitability. Further, both operating leverage and financial leverage have decreased, which implies:

- Reduction in business risk (due to lower operating leverage), and
- Reduction in financial risk (due to lower financial leverage).

Hence, the overall risk profile of the company declines with an increase in of production from 1,50,000 to 1,80,000 units.

(c) Ratios for the year 2025-2026

(i) Inventory turnover ratio

$$= \frac{\text{COGS}}{\text{Average Inventory}} = \frac{20,860}{\frac{(2,867 + 2,407)}{2}} = 7.91$$

(ii) **Financial leverage**

	2025-26	2024-25
$= \frac{\text{EBIT}}{\text{EBIT} - I}$	$= \frac{170}{57}$ $= 2.98$	$= \frac{586}{481}$ $= 1.22$

(iii) **ROCE**

$$= \frac{\text{EBIT} (1-t)}{\text{Average Capital Employed}} = \frac{57 (1-0.4)}{\left(\frac{5,947 + 4,555}{2}\right)} = \frac{34.2}{5251} \times 100 = 0.651\%$$

[Here Return on Capital Employed (ROCE) is calculated after Tax]

(iv) **ROE**

$$= \frac{\text{Profits after tax}}{\text{Average shareholders' funds}} = \frac{34}{\left(\frac{2,377 + 1,472}{2}\right)} = \frac{34}{1,924.5} = 1.77\%$$

(v) **Average Collection Period***

$$\text{Average Sales per day} = \frac{22,165}{365} = ₹ 60.73 \text{ lakhs}$$

$$\text{Average collection period} = \frac{\text{Average Debtors}}{\text{Average sales per day}} = \frac{\frac{(1,495 + 1,168)}{2}}{60.73} = \frac{1331.5}{60.73}$$
$$= 22 \text{ days}$$

2. (a) **Statement showing Working Capital for each policy**

(1) **Statement showing working capital investment under each policy**

	Particulars	Working capital policy		
		Conservative	Moderate	Aggressive
(A)	Current assets	4.50	3.90	2.60
(B)	Fixed assets	<u>2.60</u>	<u>2.60</u>	<u>2.60</u>
(C)	Total assets (A) + (B)	7.10	6.50	5.20
(D)	Current liabilities	<u>2.34</u>	<u>2.34</u>	<u>2.34</u>
(E)	Net worth (C) – (D)	4.76	4.16	2.86
(F)	Estimated sales	<u>12.30</u>	<u>11.50</u>	<u>10.00</u>

(G)	EBIT	1.23	1.15	1.00
(i)	Net working capital position (A) – (D)	2.16	1.56	0.26
(ii)	Rate of return (G)/(C) (in per cent)	17.3	17.7	19.2
(ii)	Current ratio (A)/(D)	1.92	1.67	1.11

(2) Statement showing effect of financing under alternative financing policy

(₹ in crores)

	Particulars	Financing policy		
		Conservative	Moderate	Aggressive
(A)	Current assets	3.90	3.90	3.90
(B)	Fixed assets	2.60	2.60	2.60
(C)	Total assets (A) + (B)	6.50	6.50	6.50
(D)	Current liabilities	2.34	2.34	2.34
(E)	Short-term debt	0.54	1.00	1.50
(F)	Long-term debt	1.12	0.66	0.16
(G)	Equity capital	2.50	2.50	2.50
	Total liabilities (D) + (E) + (F) + (G)	6.50	6.50	6.50
	Estimated sales	11.50	11.50	11.50
(H)	EBIT	1.15	1.15	1.15
(I)	Less: Interest on short-term debt [12% of (E)]	(0.06)	(0.12)	(0.18)
(J)	Interest on long-term debt [16% of (F)]	(0.18)	(0.11)	(0.03)
(K)	EBT [(H) – (I) – (J)]	0.91	0.92	0.94
(L)	Less: Taxes @ 35%	(0.32)	(0.32)	(0.33)
(M)	EAT [(K) – (L)]	0.59	0.60	0.61
(a)	Net working capital [(A) – (D) – (E)]	1.02	0.56	0.06
(b)	Rate of return on equity funds [(M)/(G)%]	23.6%	24%	24.4%
(c)	Current ratio [(A)/(D) + (E)]	1.35	1.17	1.02

- (b) **Ageing Schedule:** An important means to get an insight into collection pattern of debtors is the preparation of their 'Ageing Schedule'. Receivables are classified according to their age from the date of invoicing e.g. 0 – 30 days, 31 – 60 days, 61 – 90 days, 91 – 120 days and more. The ageing schedule can be compared with earlier month's figures or the corresponding month of the earlier year.

This classification helps the firm in its collection efforts and enables management to have a close control over the quality of individual accounts. The ageing schedule can be compared with other firms also.

$$3. \quad (a) \quad (i) \quad \text{Cost of Equity} - K_e = \frac{D_1}{P_0} + g = \frac{₹ 24(1+0.05)}{₹ 150} + 0.05$$

$$= 0.168 + 0.05 = 0.218 \text{ or } 21.8\%$$

Cost of Preference share = $10/100 = 0.10$ or 10%

Alternatively - If cost of preference share is calculated on the basis of market price of preference share

Cost of Preference share = $10/120 = 0.0833$ or 8.33%

Cost of long term debt = $I(1 - t) = 12\% (1 - 0.25) = 9\%$

Cost of retained earning i.e. $K_e = 21.8\%$

(ii) **Weighted Average Cost of Capital (book value weights)**

Source	Amount (₹)	Weight	After tax cost of capital %	WACC %
Equity	6,00,00,000	0.3	21.8	6.54
Retained earnings	4,00,00,000	0.2	21.8	4.36
10% Preference shares	2,00,00,000	0.1	10	1
12% Long term debt	8,00,00,000	0.4	9	3.6
TOTAL	20,00,00,000	1		15.5

(iii) **Weighted Average Cost of Capital (market value weights)**

Source	Amount (₹)	Weight	After tax cost of capital %	WACC %
Equity	5,40,00,000	0.27	21.8	5.886
Retained Earning	3,60,00,000	0.18	21.8	3.924

10% Preference Shares	2,40,00,000	0.12	10	1.2
12% Long term debt	8,60,00,000	0.43	9	3.87
TOTAL	20,00,00,000	1.0		14.88

Alternatively using cost of preference share on the basis of market price

Source	Amount (₹)	Weight	After tax cost of capital %	WACC
Equity	5,40,00,000	0.27	21.8	5.886
Retained Earning	3,60,00,000	0.18	21.8	3.924
10% Preference Shares	2,40,00,000	0.12	8.33	1
12% Long term debt	8,60,00,000	0.43	9	3.87
TOTAL	20,00,00,000	1.0		14.68

- (b) **As per Dividend discount model, the price of share is calculated as follows:**

Retained earning per share = ₹ 3.60

Dividend per share, $D_0 = \frac{₹ 3.60}{40\%} \times 60\% = ₹ 5.40$

$$P = \frac{D_1}{(1+K_e)^1} + \frac{D_2}{(1+K_e)^2} + \frac{D_3}{(K_e - g)} + \frac{1}{(1+K_e)^2}$$

Where,

P = Price per share

K_e = Required rate of return on equity

g = Growth rate

$$P = \frac{₹ 5.4 \times 1.1}{(1+0.15)^1} + \frac{₹ 5.94 \times 1.1}{(1+0.15)^2} + \frac{₹ 6.534 \times 1.08}{(0.15-0.08)^1} \times \frac{1}{(1+0.15)^2}$$

$$P = 5.17 + 4.94 + 76.23 = ₹ 86.33$$

Intrinsic value of share is ₹ 86.33

4. (a) **International Funding:** With liberalization and globalization a business enterprise has options to raise capital from International markets also. Foreign Direct

Investment (FDI) and Foreign Institutional Investors (FII) are two major routes for raising funds from foreign sources besides ADR's (American depository receipts) and GDR's (Global depository receipts). Obviously, the mechanism of procurement of funds has to be modified in the light of the requirements of foreign investors.

Angel Financing: Angel Financing is a form of an equity-financing where an angel investor is a wealthy individual who provides capital for start-up or expansion, in exchange for an ownership/equity in the company. Typically, angels, as they are known as, will invest around 25 to 60 per cent to help a company get started. This source of finance sometimes is the last option for startups which doesn't qualify for bank funding and are too small for venture capital financing.

(b) The fundamental tasks for which treasury department of any enterprise is responsible are:

1. **Cash Management:** It involves efficient cash collection process and managing payment of cash both inside the organisation and to third parties.

Treasury will also manage surplus funds in an investment portfolio. Investment policy will consider future needs for liquid funds and acceptable levels of risk as determined by company policy.

2. **Currency Management:** The treasury department manages the foreign currency risk exposure of the company. In a large multinational company (MNC) the first step will usually be to set off intra-group indebtedness. The use of matching receipts and payments in the same currency will save transaction costs and also will save the organization from any unfavorable exchange movements.

The treasury will manage any net exchange exposures in accordance with company policy. If risks are to be minimized then forward contracts can be used either to buy or sell currency forward.

3. **Fund Management:** Treasury department is responsible for planning and sourcing the company's short, medium and long-term cash needs. They also facilitate temporary investment of surplus funds by mapping the time gap between funds inflow and outflow.

4. **Banking:** It is important that a company maintains a good relationship with its bankers. Treasury department carry out negotiations with bankers with respect to interest rates, foreign exchange rates etc. and act as the initial point of contact with them.

5. **Corporate Finance:** Treasury department is involved with both acquisition and divestment activities within the group. In addition, it will often have responsibility for investor relations.

* Any four points

- (c) In dividend price approach, cost of equity capital is computed by dividing the current dividend by average market price per share. This ratio expresses the cost of equity capital in relation to what yield the company should pay to attract investors. It is computed as:

$$K_e = \frac{D_1}{P_0}$$

Where,

D_1 = Dividend per share in period 1

P_0 = Market price per share today

Whereas, on the other hand, the advocates of earnings price approach co-relate the earnings of the company with the market price of its share. Accordingly, the cost of ordinary share capital would be based upon the expected rate of earnings of a company. This approach is similar to dividend price approach, only it seeks to nullify the effect of changes in dividend policy.

Or

- (c) "Operating risk is associated with cost structure whereas financial risk is associated with capital structure of a business concern".

Operating risk refers to the risk associated with the firm's operations. It is represented by the variability of earnings before interest and tax (EBIT). The variability in turn is influenced by revenues and expenses, which are affected by demand of firm's products, variations in prices and proportion of fixed cost in total cost. If there is no fixed cost, there would be no operating risk. Whereas financial risk refers to the additional risk placed on firm's shareholders as a result of debt and preference shares used in the capital structure of the concern. Companies that issue more debt instruments would have higher financial risk than companies financed mostly by equity.

PAPER 6B: STRATEGIC MANAGEMENT

ANSWERS

PART I

- | | | | | | | | | | | |
|--------|-----|-----|------|-----|-------|-----|------|-----|-----|-----|
| 1. (A) | (i) | (b) | (ii) | (b) | (iii) | (c) | (iv) | (b) | (v) | (c) |
| (B) | (i) | (d) | (ii) | (b) | (iii) | (b) | | | | |

PART II PART II – Descriptive Questions

1. (a) The corporate level decides what the business wants to achieve, the business level formulates plans, and the functional level executes them, with different types of relationships linking these levels.

Functional and Divisional Relationship: In XYZ Pharmaceuticals, this relationship is evident as different product divisions such as generics and specialty drugs operate independently, each headed by a division head, with separate functional teams like marketing, HR and production under them. This independent structure ensures specialisation, clarity in roles and efficient management of diverse product lines, making it highly suitable for the organisation.

Horizontal Relationship: Elements of horizontal relationship can be observed through coordination and idea sharing across teams at similar hierarchical levels. This promotes openness, transparency and innovation in the organisation. However, since the pharmaceutical industry is complex and highly regulated, this relationship is not dominant but still useful in encouraging collaboration and faster decision-making.

Matrix Relationship: The company also follows a matrix relationship as it forms cross-functional teams for new product launches, where employees report to more than one manager (functional and project heads). This grid-like structure enhances flexibility, coordination and effective utilisation of resources, making it highly suitable for project-based work, although it may lead to complexity in reporting and authority.

- (b) Suraj Prakash is a follower of **transactional leadership style** that focuses on designing systems and controlling the organization's activities. Such a leader believes in using the authority of his office to exchange rewards, such as pay and status. They prefer a more formal approach to motivation, setting clear goals with explicit rewards or penalties for achievement or non-achievement. Transactional

leaders try to build on the existing culture and enhance current practices. The style is better suited in persuading people to work efficiently and run operations smoothly.

On the other hand, Chander Prakash is a follower of **transformational leadership style**. The style uses charisma and enthusiasm to inspire people to exert them for the good of the organization. Transformational leaders offer excitement, vision, intellectual stimulation and personal satisfaction. They inspire involvement in a mission, giving followers a 'dream' or 'vision' of a higher calling to elicit more dramatic changes in organizational performance. Such leadership motivates followers to do more than originally affected by stretching their abilities and increasing their self-confidence and promoting innovation throughout the organization.

- (c) In this case, the **bargaining power of customers** is a significant force. Customers have multiple dining choices and are highly price sensitive. Since switching costs are low, they can easily move to other restaurants offering better value, quality, or discounts. This forces the company to continuously improve its offerings and pricing strategies.

The **threat of substitutes** is also high, as customers can opt for alternatives such as fast food, home-cooked meals, or online food delivery services. These substitutes can significantly impact demand, especially if they are more convenient or cost-effective.

The **threat of new entrants** is moderate because, although some investment and regulatory compliance are required, there are no major technological barriers. New players can enter the market if they identify growth opportunities, increasing competition over time.

The **competitive rivalry** is moderate, as there are limited premium organic restaurants, but competition still exists in attracting and retaining health-conscious customers.

There is no strong indication of high or low **bargaining power of suppliers** in the scenario. However, if organic ingredient suppliers are limited, supplier power could increase; otherwise, it may remain moderate.

2. (a) Values are fundamental principles or standards that guide the behaviour and decision-making of individuals and organizations. They are at the core of strategic intent and help define a company's culture and ethical posture.

A company's values set the tone for how people think and behave, especially in situations involving dilemmas. They create a sense of shared purpose, enabling all stakeholders to align and focus on the long-term success of the company.

Values have both internal and external implications:

- **Internally**, they influence employee behaviour, build trust, boost morale and help in creating a consistent workplace culture.
- **Externally**, they impact how customers, investors and society at large perceive the company. A majority of consumers prefer companies whose values reflect their own belief systems.

Some common organizational values include Integrity, Trust, Accountability, Humility, Innovation and Diversity.

Values and Intent are two distinct concepts:

- Intent refers to the purpose of doing business – the long-term direction the company aims to pursue.
- Values are the principles and ethical standards that guide how decisions are made and how the business is conducted.

While they go hand-in-hand, values often drive intent. Therefore, values are broader and more foundational than intent.

- (b) **SWOT** analysis is a tool used by organizations for evolving strategic options for the future. The term SWOT refers to the analysis of strengths, weaknesses, opportunities and threats facing a company. Strengths and weaknesses are identified in the internal environment, whereas opportunities and threats are located in the external environment.
- (a) **Strength:** Strength is an inherent capability of the organization which it can use to gain strategic advantage over its competitor.
 - (b) **Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.
 - (c) **Opportunity:** An opportunity is a favourable condition in the external environment which enables it to strengthen its position.
 - (d) **Threat:** An unfavourable condition in the external environment which causes a risk for, or damage to the organisation's position.

The major purpose of SWOT analysis is to enable the management to create a firm-specific business model that will best align, fit or match organisational resources and capabilities to the demands of the environment in which it operates.

3. (a) The concept is **Experience Curve**. The experience curve, akin to a learning curve, explains the efficiency increase gained by workers through repetitive productive work. It is based on the phenomenon that unit costs decline as a firm accumulates experience in terms of a cumulative volume of production – the idea being, “*we learn as we grow.*”

Relevant Features of Experience Curve in Strategic Management

- As business organisations grow, they gain experience which enables cost efficiencies.
- Experience may provide an advantage over competition as lower costs create a barrier for new entrants.
- Experience is considered a key barrier to entry for new firms contemplating industry entry.
- Large and successful organisations possess stronger experience effect, helping in leadership and cost advantage.

Thus, the experience curve is a critical concept in strategic management as it links growth with learning, cost reduction and competitive advantage, making it a strong determinant of industry positioning and entry barriers.

- (b) The ADL matrix has derived its name from Arthur D. Little which is a portfolio analysis method based on product life cycle. The approach forms a two-dimensional matrix based on stage of industry maturity and the firm's competitive position, environmental assessment and business strength assessment. The role of ADL matrix is to assess the competitive position of a firm based on an assessment of the following criteria:

- ◆ **Dominant:** This is a comparatively rare position and in many cases is attributable either to a monopoly or a strong and protected technological leadership.
- ◆ **Strong:** By virtue of this position, the firm has a considerable degree of freedom over its choice of strategies and is often able to act without its market position being unduly threatened by its competitors.

- ◆ **Favourable:** This position, which generally comes about when the industry is fragmented and no one competitor stands out clearly, results in the market leaders having a reasonable degree of freedom.
- ◆ **Tenable:** Although the firms within this category are able to perform satisfactorily and can justify staying in the industry, they are generally vulnerable in the face of increased competition from stronger and more proactive companies in the market.
- ◆ **Weak:** The performance of firms in this category is generally unsatisfactory although the opportunities for improvement do exist.

4. (a) The Mendelow's matrix is a simple framework to help manage key stakeholders.

Managing Stakeholders: Mendelow's Matrix is an essential tool for managing stakeholders effectively in project management, as it involves managing the competing interests of various stakeholders. It categorizes stakeholders based on their power and interest levels. This framework helps project managers to identify which stakeholders are incredibly important and prioritize their engagement strategies to ensure project success.

Categorization of Stakeholders: The matrix divides stakeholders into four groups:

- **Key Players (High Power, High Interest):** These stakeholders require close management and regular communication. Engaging them fully ensures their support and input, which is crucial for project success. For instance, CEOs and shareholders fall into this category.
- **Keep Satisfied (High Power, Low Interest):** While these stakeholders have significant influence, they may not be as invested in the project's success. It is essential to keep them satisfied with sufficient information to prevent potential conflicts.
- **Keep Informed (Low Power, High Interest):** Stakeholders in this group are interested in the project but lack the power to influence its outcome. Regular updates and communication can foster goodwill and may provide valuable feedback.
- **Low Priority (Low Power, Low Interest):** These stakeholders require minimal attention. Monitoring their interest and power levels periodically is sufficient, as they do not significantly impact the project.

In summary, Mendelow's Matrix provides a clear framework for categorizing stakeholders based on their power and interest, facilitating effective stakeholder management and enhancing the likelihood of project success.

(b) York Investors is employing the McKinsey 7S Model to achieve its strategic objectives. The model focuses on seven interdependent elements within an organization, categorized into "Hard Ss" and "Soft Ss." In this case:

- **Strategy (Hard S):** Investing in training programs and technology aligns with the strategic objective of enhancing workforce skills and operational efficiency.
- **Structure (Hard S):** The investment suggests a structural alignment to support the strategic initiatives, indicating a deliberate organization of resources.
- **Systems (Hard S):** The use of cutting-edge technology and communication systems reflects a commitment to optimizing daily tasks and improving overall efficiency, addressing the system component of the model.
- **Shared Values (Soft S):** The emphasis on comprehensive training initiatives indicates a commitment to shared values, reflecting a focus on developing a skilled and capable workforce.
- **Style (Soft S):** The leadership style is implied in the strategic decision to invest in technology and training for workforce development and operational efficiency.
- **Staff (Soft S):** The commitment to enhancing skills and capabilities reflects a focus on the talent pool within the organization.
- **Skills (Soft S):** The strategic investment in training programs directly addresses the development of key skills within the workforce.

York Investors' approach demonstrates a holistic application of the McKinsey 7S Model, emphasizing the interconnectedness of both hard and soft elements to achieve strategic alignment and organizational effectiveness.

OR

Merako Appliances has improved operational **efficiency** by automating its assembly line. However, declining sales due to products not meeting customer needs indicate a lack of **effectiveness**. This highlights the importance of balancing *doing things right* (efficiency) with *doing the right things* (effectiveness).

To achieve **sustainable success**, Merako must align its operations with customer preferences through sound **strategy formulation** (effectiveness), followed by efficient **strategy implementation**.

Four Possible Situations Based on Efficiency and Effectiveness:

1. **Efficient and Effective (Thrive):** Ideal scenario. The firm does the right things and does them well. Merako should aim for this by aligning products with customer needs while maintaining efficiency.
2. **Efficient but Ineffective (Die Slowly):** Merako's current state. Operations are streamlined, but customer needs are unmet, risking decline without strategic correction.
3. **Inefficient but Effective (Survive):** Right strategy but poor execution. The firm may survive but must improve efficiency to sustain.
4. **Inefficient and Ineffective (Die Quickly):** Neither aligned with customer needs nor operationally sound. Leads to rapid failure unless overhauled.

Strategic Formulation

		Strategic Formulation	
Operational Management		Effective	Ineffective
	Efficient	1 Thrive	2 Die Slowly
	Inefficient	3 Survive	4 Die Quickly

Principal combinations of efficiency and effectiveness

Merako must integrate **customer feedback** into strategic planning and ensure both efficient execution and effective direction to gain long-term competitiveness.