Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 6: Financial Management and Strategic Management

Chapter-wise Practice Questions with Answers

For January 2027 attempt · 50 MCQs (5 sets) + 10 descriptive questions with model answers · Original Skillshort questions · All numericals verified in Python

50 MCQs with key | 10 descriptive with answers | Show workings for FM | Solve after each chapter

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This subject pack has 6 parts

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Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part A – Chapter-wise MCQs

Each set is followed by its answer key. Attempt a set in 20 minutes after finishing the related chapters. Use a 360-day year unless stated.

Set 1 – FM Chapter 1 (Scope, ratios and sources of finance)

1. Current assets ₹6,00,000 and current liabilities ₹2,40,000. The current ratio is
(a) 2.0 (b) 2.5
(c) 0.4 (d) 3.6

2. In Q1, inventory is ₹1,20,000 and prepaid expenses ₹30,000. The quick ratio is
(a) 1.875 (b) 2.0
(c) 2.375 (d) 1.5

3. Credit sales ₹24,00,000 and average debtors ₹4,00,000. The debtors' turnover and collection period are
(a) 6 times, 60 days (b) 4 times, 90 days
(c) 6 times, 45 days (d) 8 times, 45 days

4. EBIT ₹12,00,000 and interest ₹3,00,000. The interest coverage ratio is
(a) 3 (b) 4
(c) 0.25 (d) 9

5. PAT ₹3,00,000 and equity shareholders' funds ₹20,00,000. Return on equity is
(a) 6.67% (b) 12%
(c) 15% (d) 20%

6. Commercial paper in India can be issued for a maturity of
(a) 1 to 7 days (b) 7 days to 1 year
(c) 1 to 3 years (d) Up to 5 years

7. A depository receipt issued in the USA representing shares of an Indian company is a(n)
(a) GDR (b) ADR
(c) IDR (d) FCCB

8. A firm sells its building to a financier and immediately takes it on lease. This is
(a) Leveraged lease (b) Sale and leaseback
(c) Operating lease (d) Hire purchase

9. A short-term loan taken to meet expenses until a long-term loan or issue is completed is
(a) Bridge finance (b) Packing credit
(c) Seed capital (d) Debt securitisation

10. The main objective of financial management is
(a) Profit maximisation (b) Sales maximisation
(c) Wealth maximisation (d) Maximising dividend

Set 1 – Answer key

Q	Ans	Explanation / working
1	(b)	6,00,000 ÷ 2,40,000 = **2.5**.
2	(a)	Quick assets = 6,00,000 − 1,20,000 − 30,000 = 4,50,000 ÷ 2,40,000 = **1.875**.
3	(a)	24 ÷ 4 = **6 times**; 360 ÷ 6 = **60 days**.

Q	Ans	Explanation / working
4	(b)	12 ÷ 3 = **4 times**.
5	(c)	3 ÷ 20 = **15%**.
6	(b)	CP is a short-term unsecured promissory note with a maturity of **7 days to one year** (RBI directions). VERIFY
7	(b)	**American Depository Receipt** – listed and traded in the US; a GDR is traded in other markets (e.g. Luxembourg/London); an IDR is issued in India by a foreign company.
8	(b)	**Sale and leaseback** releases funds locked in the asset while the firm keeps using it.
9	(a)	**Bridge finance** "bridges" the gap until long-term funds are received.
10	(c)	**Wealth maximisation** – it considers time value of money and risk.

Set 2 – FM Chapters 2 (Cost of capital and capital structure)

11. 10% debentures of ₹100, issued at ₹92, redeemable at par after 8 years; tax 30%. The approximate cost of debt is

(a) 7.00%
(b) 8.33%
(c) 10.87%
(d) 7.61%

12. Risk-free rate 6%, beta 1.2, market return 12%. Cost of equity (CAPM) is

(a) 13.2%
(b) 14.4%
(c) 7.2%
(d) 12.0%

13. Expected dividend ₹3, market price ₹50, growth 6%. Cost of equity is

(a) 6%
(b) 12%
(c) 12.36%
(d) 9%

14. Ignoring flotation costs, the cost of retained earnings is

(a) Zero
(b) Equal to the cost of equity
(c) Equal to the cost of debt
(d) The risk-free rate

15. Equity (60%) costs 14% and debt (40%) costs 7% after tax. WACC is

(a) 10.5%
(b) 11.2%
(c) 12.6%
(d) 9.8%

16. According to MM (no taxes), the value of a firm

(a) Rises with debt
(b) Falls with debt
(c) Is independent of its capital structure
(d) Is maximised at 50% debt

17. The approach that holds there is an optimum capital structure where WACC is lowest is the

(a) NOI approach
(b) Traditional approach
(c) MM without taxes
(d) None

18. Value of an unlevered firm ₹50 lakh; the levered firm has debt of ₹20 lakh; tax 25%. Under MM with taxes, the value of the levered firm is

(a) ₹50 lakh
(b) ₹55 lakh
(c) ₹70 lakh
(d) ₹45 lakh

19. Plan X: 1,50,000 equity shares; Plan Y: 1,00,000 shares plus interest of ₹2,00,000. The indifference EBIT is

(a) ₹4,00,000
(b) ₹6,00,000
(c) ₹3,00,000
(d) ₹5,00,000

20. Under the pecking order theory, firms prefer funds in the order

(a) Equity, debt, internal funds
(b) Internal funds, debt, equity
(c) Debt, equity, internal funds
(d) Equity, internal funds, debt

Set 2 – Answer key

Q	Ans	Explanation / working
11	(b)	[10 × 0.7 + (100 − 92) ÷ 8] ÷ [(100 + 92) ÷ 2] = 8 ÷ 96 = **8.33%**.
12	(a)	6 + 1.2 × (12 − 6) = **13.2%**.
13	(b)	3 ÷ 50 + 0.06 = **12%**.
14	(b)	Retained earnings belong to equity holders, who expect the same return – **Kr = Ke** (opportunity-cost concept).
15	(b)	0.6 × 14 + 0.4 × 7 = **11.2%**.
16	(c)	Without taxes, value depends only on EBIT and business risk; arbitrage keeps values equal.
17	(b)	The **traditional approach** says WACC first falls, then rises – so there is an optimum.
18	(b)	VL = VU + tD = 50 + 0.25 × 20 = **₹55 lakh**.
19	(b)	EBIT ÷ 1,50,000 = (EBIT − 2,00,000) ÷ 1,00,000 → EBIT = 1.5 EBIT − 3,00,000 → **₹6,00,000** (tax cancels out).
20	(b)	Internal funds first, then **debt**, and **new equity last** (information asymmetry).

Set 3 – FM Chapters 2–3 (Leverage and capital budgeting)

21. Sales ₹10,00,000, variable cost ₹6,00,000, fixed cost ₹2,00,000. DOL is

(a) 1.5
(b) 2.0
(c) 2.5
(d) 5.0

22. In Q21, interest is ₹50,000. DFL is

(a) 1.33
(b) 1.25
(c) 4.0
(d) 2.67

23. Where there are no preference shares, the financial break-even point is EBIT equal to

(a) Fixed operating cost
(b) Interest
(c) Contribution
(d) Zero

24. Outlay ₹5,00,000; cash inflows ₹1,50,000, ₹2,00,000 and ₹2,50,000 in years 1–3. Payback period is

(a) 2.4 years
(b) 2.6 years
(c) 2.5 years
(d) 3.0 years

25. PV of inflows ₹6,00,000 and outlay ₹5,00,000. The profitability index is

(a) 0.83
(b) 1.20
(c) 1.00
(d) 0.20

26. The NPV method assumes that intermediate cash flows are reinvested at

(a) The IRR
(b) The cost of capital
(c) The risk-free rate
(d) Zero

27. Discounted payback period differs from simple payback because it

(a) Ignores cash flows after payback
(b) Uses discounted cash flows
(c) Uses accounting profit
(d) Considers salvage only

28. Under capital rationing with divisible projects, projects should be ranked by

(a) IRR
(b) NPV
(c) Profitability index
(d) Payback

29. A market survey done last year for ₹1,00,000 for a project being evaluated now is

(a) A relevant cost
(b) A sunk cost to be ignored
(c) An opportunity cost
(d) Part of working capital

30. Under the certainty-equivalent approach, the adjusted cash flows are discounted at

(a) The risk-adjusted rate
(b) The risk-free rate
(c) The IRR
(d) WACC plus premium

Set 3 – Answer key

Q	Ans	Explanation / working
21	(b)	Contribution 4,00,000 ÷ EBIT 2,00,000 = **2**.
22	(a)	EBIT 2,00,000 ÷ EBT 1,50,000 = **1.33**.
23	(b)	At EBIT = **interest**, EPS is zero.
24	(b)	After 2 years 3,50,000 is recovered; 1,50,000 ÷ 2,50,000 = 0.6 → **2.6 years**.
25	(b)	6 ÷ 5 = **1.20**.
26	(b)	NPV assumes reinvestment at the **cost of capital**; IRR assumes reinvestment at the IRR – a cause of conflicting rankings.
27	(b)	It recovers the outlay using **present values** of cash flows (it still ignores flows after payback).
28	(c)	**PI** (NPV per rupee of investment) maximises total NPV within the budget.
29	(b)	It is already incurred and unaffected by the decision – **sunk cost, ignored**.
30	(b)	Risk is adjusted in the cash flows (CE coefficient × cash flow), so discount at the **risk-free rate**.

Set 4 – FM Chapters 3–4 (Dividend decisions and working capital)

31. EPS ₹10, DPS ₹4, r 20%, ke 16%. Price under Walter's model is

(a) ₹62.50
(b) ₹71.88
(c) ₹25.00
(d) ₹100.00

32. EPS ₹10, retention 40%, r 15%, ke 12%. Price under Gordon's model is

(a) ₹83.33
(b) ₹100
(c) ₹50
(d) ₹66.67

33. Under MM, D1 = ₹5, P1 = ₹105, ke = 10%. P0 is

(a) ₹95.45
(b) ₹100
(c) ₹110
(d) ₹105

34. Lintner's model says dividends depend on

(a) Investment opportunities only
(b) Target payout ratio and speed of adjustment to past dividends
(c) Market price only
(d) Residual earnings

35. On issue of bonus shares (stock dividend), total shareholders' funds

(a) Increase
(b) Decrease
(c) Do not change
(d) Double

36. Annual cash need ₹36,00,000; cost per conversion ₹200; interest on securities 10%. The optimum cash balance (Baumol) is

(a) ₹1,20,000
(b) ₹60,000
(c) ₹84,853
(d) ₹2,40,000

37. RM 40 days, WIP 15, FG 25, debtors 50, creditors 30. Net operating cycle is

(a) 130 days
(b) 160 days
(c) 100 days
(d) 70 days

38. Forfaiting differs from factoring because forfaiting

(a) Covers short-term domestic receivables
(b) Is for medium/long-term export receivables, usually without recourse
(c) Always has recourse
(d) Includes sales-ledger administration

39. Treasury bills are issued

(a) At par with coupon
(b) At a discount and redeemed at par
(c) At a premium
(d) Only to banks with coupons

40. Financing all permanent and part of temporary working capital from long-term sources is the

(a) Aggressive approach
(b) Matching approach
(c) Conservative approach
(d) Hedging approach

Set 4 – Answer key

Q	Ans	Explanation / working
31	(b)	[4 + (0.20 ÷ 0.16) × 6] ÷ 0.16 = 11.5 ÷ 0.16 = **₹71.875**.
32	(b)	g = 0.4 × 15% = 6%; D = 6; P = 6 ÷ (0.12 − 0.06) = **₹100**.
33	(b)	P0 = (D1 + P1) ÷ (1 + ke) = 110 ÷ 1.10 = **₹100**.
34	(b)	D1 = D0 + [(EPS × target payout) − D0] × adjustment factor – firms **smooth** dividends.
35	(c)	Reserves are capitalised into share capital – **no change** in total equity or cash.
36	(a)	√(2 × 36,00,000 × 200 ÷ 0.10) = √1,44,00,00,000 = **₹1,20,000**.
37	(c)	40 + 15 + 25 + 50 − 30 = **100 days**.
38	(b)	**Forfaiting** discounts **export** bills (medium term), typically **without recourse**; factoring is short-term and may be with or without recourse.
39	(b)	T-bills are zero-coupon – **issued at a discount**, redeemed at face value.
40	(c)	**Conservative** – more long-term funds, lower risk, higher cost.

Set 5 – SM Chapters 5–9

41. The three levels of strategy in a large company are

(a) Corporate, business and functional
(b) Vision, mission and objective
(c) Planning, organising and control
(d) Strategic, tactical and personal

42. Which is NOT one of Porter's five forces?

(a) Threat of new entrants
(b) Bargaining power of suppliers
(c) Government regulation
(d) Threat of substitutes

43. In Porter's value chain, human resource management is a

(a) Primary activity
(b) Support activity
(c) Margin
(d) Outbound activity

44. In the industry life cycle, slowing growth, price competition and shake-out of weak firms indicate

(a) Introduction
(b) Growth
(c) Maturity
(d) Decline

45. Launching a new product for existing customers is, in the Ansoff matrix,

(a) Market penetration
(b) Product development
(c) Market development
(d) Diversification

46. A firm that continues serving the same market with the same products with only incremental changes follows a

(a) Growth strategy
(b) Stability strategy
(c) Retrenchment strategy
(d) Combination strategy

47. Reversing a declining business through cost cuts and restructuring is a

(a) Divestment
(b) Turnaround
(c) Liquidation
(d) Diversification

48. A structure in which the firm outsources most functions and coordinates a set of independent partners is a

(a) Functional structure
(b) Divisional structure
(c) Network (virtual) structure
(d) Matrix structure

49. A unit with its own mission, competitors and manager, which can be planned independently, is a(n)

(a) Cost centre
(b) Strategic business unit
(c) Functional department
(d) Profit pool

50. The four perspectives of a balanced scorecard are

(a) Financial, customer, internal process, learning and growth
(b) Political, economic, social, technological
(c) Strengths, weaknesses, opportunities, threats
(d) Price, product, place, promotion

Set 5 – Answer key

Q	Ans	Explanation / working
41	(a)	**Corporate** (which businesses), **business** (how to compete) and **functional** (how each function supports).
42	(c)	The five forces are rivalry, new entrants, substitutes, buyers and suppliers; **government** affects them but is not a separate force.
43	(b)	Support activities: firm infrastructure, **HRM**, technology development, procurement.
44	(c)	**Maturity** – growth slows, competition intensifies, and weaker firms exit.
45	(b)	New product, existing market = **product development**.
46	(b)	**Stability** – no major change in products, markets or functions.
47	(b)	**Turnaround** is a retrenchment strategy aimed at recovery, not exit.
48	(c)	A **network structure** – a small core firm linked to suppliers and partners.
49	(b)	An **SBU** groups related businesses for strategic planning.
50	(a)	Kaplan and Norton's four perspectives.

Part B – Descriptive Practice Questions

QUESTION D1 – DuPont analysis (4 marks)

Sales ₹50,00,000; PAT ₹4,00,000; total assets ₹40,00,000; equity ₹20,00,000. Compute ROE using the DuPont framework and comment.

SOLUTION D1

Net profit margin = 4 ÷ 50 = **8%**; asset turnover = 50 ÷ 40 = **1.25 times**; equity multiplier = 40 ÷ 20 = **2**. ROE = 8% × 1.25 × 2 = **20%**. Half the ROE comes from leverage (multiplier 2); improving margin or asset use is a safer route to higher ROE than more debt.

QUESTION D2 – Cost of new equity (4 marks)

A company expects to pay a dividend of ₹4 next year; growth is 5% p.a.; the share price is ₹80; flotation cost on a new issue is 5% of the price. Compute the cost of existing equity and of new equity.

SOLUTION D2

Existing: Ke = 4 ÷ 80 + 0.05 = **10%**. New equity: net proceeds = 80 × 0.95 = 76; Ke = 4 ÷ 76 + 0.05 = **10.26%**. Flotation cost raises the cost of new equity above that of retained earnings.

QUESTION D3 – Working back leverages (4 marks)

A firm has DOL 3 and DFL 2; interest is ₹1,00,000. Find EBIT, contribution and fixed operating cost.

SOLUTION D3

DFL = EBIT ÷ (EBIT − 1,00,000) = 2 → **EBIT = ₹2,00,000**. DOL = Contribution ÷ EBIT = 3 → **contribution = ₹6,00,000**. Fixed cost = 6,00,000 − 2,00,000 = **₹4,00,000**. DCL = 6.

QUESTION D4 – Capital rationing (5 marks)

Budget ₹10,00,000. Divisible projects: A – cost 4,00,000, NPV 1,00,000; B – 5,00,000, NPV 1,50,000; C – 3,00,000, NPV 45,000; D – 6,00,000, NPV 1,20,000. Select the optimal set.

SOLUTION D4

Project	Cost (₹)	NPV (₹)	PI (1 + NPV ÷ cost)	Rank
A	4,00,000	1,00,000	1.25	2
B	5,00,000	1,50,000	1.30	1
C	3,00,000	45,000	1.15	4
D	6,00,000	1,20,000	1.20	3

Take B (5,00,000) and A (4,00,000); the remaining ₹1,00,000 goes to 1/6 of D (NPV 20,000). Total NPV = 1,50,000 + 1,00,000 + 20,000 = **₹2,70,000**.

QUESTION D5 – MM dividend irrelevance (5 marks)

A company has 1,00,000 shares at ₹100; ke 10%. It expects net income of ₹10,00,000, plans investment of ₹20,00,000 and is considering a dividend of ₹5 per share. Using MM, find the price at year-end and the number of new shares to be issued if (i) the dividend is paid and (ii) it is not paid.

SOLUTION D5

P0 = (D1 + P1) ÷ (1 + ke). (i) Paid: P1 = 100 × 1.10 − 5 = **₹105**; funds needed = 20,00,000 − (10,00,000 − 5,00,000) = 15,00,000 → new shares = 15,00,000 ÷ 105 = **14,285.71**. (ii) Not paid: P1 = **₹110**; funds needed = 10,00,000 → new shares = **9,090.91**. Value check: (i) (1,00,000 + 14,285.71) × 105 = 1,20,00,000; (ii) (1,00,000 + 9,090.91) × 110 = 1,20,00,000. Value today in both cases = [(n + Δn)P1 − I + E] ÷ (1 + ke) = (1,20,00,000 − 20,00,000 + 10,00,000) ÷ 1.10 = **₹1,00,00,000** – the dividend decision does not change value.

QUESTION D6 – Financing working capital (4 marks)

Explain the approaches to financing working capital.

SOLUTION D6

(1) **Matching (hedging)** – permanent current assets from long-term funds, temporary from short-term; balanced risk and cost. (2) **Conservative** – long-term funds for permanent and part of temporary needs; low risk, high cost, lower return. (3) **Aggressive** – short-term funds for temporary and part of permanent needs; high risk (refinancing), low cost, higher return.

QUESTION D7 – TOWS matrix (5 marks)

Explain the TOWS matrix and the four strategies it generates.

SOLUTION D7

TOWS (Weihrich) matches internal and external factors: **SO** (maxi-maxi) – use strengths to grab opportunities; **ST** (maxi-mini) – use strengths to counter threats; **WO** (mini-maxi) – overcome weaknesses by using opportunities; **WT** (mini-mini) – minimise weaknesses and avoid threats (often retrenchment or alliance). It turns SWOT findings into **actionable strategies**.

QUESTION D8 – Mergers and acquisitions (5 marks)

Explain the types of mergers with examples, and the reasons for M&A.

SOLUTION D8

Types: **horizontal** (same industry and stage – two cement makers), **vertical** (different stages of the same chain – backward or forward), **concentric** (related technology or customers – a bank acquiring an insurer), **conglomerate** (unrelated businesses). Reasons: faster growth, synergy (cost and revenue), market share, access to technology and talent, tax benefits, diversification of risk, overcoming entry barriers.

QUESTION D9 – Structure for a diversified firm (5 marks)

A company has grown into five unrelated businesses. Recommend a structure and explain.

SOLUTION D9

A **divisional structure** (or **SBU structure** if divisions are many) – each business forms a division with its own functional heads and is a profit centre; top management handles corporate strategy and allocates resources. Advantages: clear accountability, quick response to each market, develops general managers. Disadvantages: duplication of functions, costly, rivalry among divisions. Where divisions are very many, grouping into SBUs makes planning manageable.

QUESTION D10 – Business process re-engineering (5 marks)

What is BPR? State the steps in implementing it.

SOLUTION D10

BPR is the **fundamental rethinking and radical redesign** of business processes to achieve dramatic improvements in cost, quality, service and speed (Hammer and Champy). Steps: (1) determine objectives and framework; (2) identify customers and their needs; (3) study existing processes; (4) formulate a redesign plan; (5) implement the redesign (with IT as an enabler and change management).