Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 6: Financial Management and Strategic Management

Mock Test 1 – Full Paper with Detailed Solutions

ICAI new-scheme pattern: 100 marks · 3 hours · Section A FM (15 MCQ + Q1 compulsory + any 2 of Q2–Q4) · Section B SM (15 MCQ + Q5 compulsory + any 2 of Q6–Q8) · Original Skillshort questions

Time: 3 hours | Max marks: 100 | No negative marking | All numbers verified in Python | Solutions follow the paper

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This subject pack has 6 parts

1 Chapter-wise notes
2 Important topics & weightage
3 Past papers: trends & links
4 Mock tests + solutions
5 Chapter practice questions
6 Last-week plan & strategy

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.

Section A – Financial Management: Multiple Choice Questions (15 marks)

Instructions: MCQs 1–7 carry 2 marks each and MCQ 8 carries 1 mark. Use the present value factors given; round to two decimals.

CASE LAW Case Scenario I – Nirmal Packaging Ltd. (MCQs 1–5)

Nirmal Packaging Ltd. is evaluating a new machine costing **₹10,00,000** with a life of **5 years** and no salvage value; depreciation is on the straight-line method. The machine will add annual sales of **₹8,00,000** and cash operating costs of **₹4,00,000**. Tax rate **30%**; cost of capital **12%**. PVAF (12%, 5 years) = **3.605**; PVAF (20%, 5) = 2.991; PVAF (21%, 5) = 2.926.

1. The annual cash flow after tax (CFAT) from the machine is

(a) ₹2,80,000 (b) ₹1,40,000
(c) ₹3,40,000 (d) ₹4,00,000

2. The net present value of the project is

(a) ₹2,25,700 (b) ₹12,25,700
(c) ₹1,40,000 (d) (₹4,95,300)

3. The payback period of the project is about

(a) 2.50 years (b) 2.94 years
(c) 3.40 years (d) 7.14 years

4. The accounting rate of return on average investment is

(a) 14% (b) 34%
(c) 28% (d) 68%

5. The internal rate of return of the project lies

(a) between 12% and 15% (b) between 20% and 21%
(c) between 21% and 22% (d) below 12%

6. A company issues 12% irredeemable debentures of ₹100 each at ₹95. Tax rate 25%. The cost of debt is

(a) 9.00% (b) 9.47%
(c) 12.63% (d) 11.40%

7. A firm has DOL 2 and DFL 1.5. If sales rise by 10%, EPS will rise by

(a) 15% (b) 20%
(c) 30% (d) 35%

8. (1 mark) Under Walter's model, when the return on investment (r) is less than the cost of equity (ke), the optimum dividend payout ratio is

(a) Zero (b) 50%
(c) 100% (d) Irrelevant

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(c)	Depreciation 10,00,000 ÷ 5 = 2,00,000. EBT = 8,00,000 − 4,00,000 − 2,00,000 = 2,00,000; tax 60,000; PAT 1,40,000. CFAT = PAT + depreciation = **₹3,40,000**.
2	(a)	PV of inflows = 3,40,000 × 3.605 = 12,25,700; NPV = 12,25,700 − 10,00,000 = **₹2,25,700**.
3	(b)	Equal annual cash flows: payback = 10,00,000 ÷ 3,40,000 = **2.94 years**.

Q	Ans	Explanation / working
4	(c)	Average PAT 1,40,000 ÷ average investment (10,00,000 + 0) ÷ 2 = 5,00,000 → **28%**.
5	(b)	Required PVAF = 10,00,000 ÷ 3,40,000 = **2.941**, which lies between 2.991 (20%) and 2.926 (21%). By interpolation IRR = 20% + (2.991 − 2.941) ÷ (2.991 − 2.926) ≈ **20.8%**.
6	(b)	Kd = I(1 − t) ÷ NP = 12 × 0.75 ÷ 95 = **9.47%**.
7	(c)	DCL = 2 × 1.5 = 3; % change in EPS = 3 × 10% = **30%**.
8	(c)	When r < ke, retained funds earn less than shareholders' required return, so the price is maximised at **100% payout**.

Section B – Strategic Management: Multiple Choice Questions (15 marks)

Instructions: MCQs 9–15 carry 2 marks each and MCQ 16 carries 1 mark.

CASE LAW **Case Scenario II – Kiran Snacks, Indore (MCQs 9–13)**

Kiran Snacks is a 20-year-old family firm selling premium hand-made namkeen in Indore. It sells only through its own outlets, uses traditional recipes, and charges about 30% more than national brands. Its customers are mostly health-conscious families who value "no palm oil" and small-batch freshness. Sales in Indore have plateaued. The second-generation owner, Ritika, plans (i) to open outlets in Bhopal and Ujjain with the **same products**, and (ii) later to launch a ready-to-cook millet range. A new FSSAI labelling rule on front-of-pack nutrition information is due next year, and quick-commerce apps are changing how urban buyers shop. Ritika says the firm's real strength is its **sourcing network of small farmers** and its recipe know-how, which rivals find hard to copy. The Indore business earns strong cash in a slow-growing local market.

1. Kiran Snacks' competitive strategy is best described as

(a) Cost leadership
(b) Broad differentiation
(c) Focused differentiation
(d) Best-cost provider

2. Opening outlets in Bhopal and Ujjain with the same products is, in the Ansoff matrix,

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

3. The new FSSAI front-of-pack labelling rule is, in a PESTLE analysis, mainly a

(a) Social factor
(b) Technological factor
(c) Legal factor
(d) Economic factor

4. The farmer sourcing network that rivals find hard to copy is best described as

(a) A threshold resource
(b) A core competence
(c) A support activity only
(d) A weakness

5. In the BCG matrix, the Indore business (strong share, slow-growing market, generates cash) is a

(a) Star
(b) Question mark
(c) Cash cow
(d) Dog

6. The two dimensions of the GE (General Electric) nine-cell matrix are

(a) Market growth rate and relative market share
(b) Industry attractiveness and business strength
(c) Products and markets
(d) Cost and differentiation

7. In Kurt Lewin's change model, the stage in which people learn new behaviour and adopt new ways of working is

(a) Unfreezing
(b) Changing (moving)
(c) Refreezing
(d) Diagnosing

8. (1 mark) The control that checks the validity of the assumptions on which a strategy is based is

(a) Operational control
(b) Premise control
(c) Implementation control
(d) Special alert control

Section B – Answer key with reasons

Q	Ans	Explanation / working
1	(c)	It serves a **narrow segment** (health-conscious families in one region) with a **premium, unique** product – a **focused differentiation** strategy.
2	(b)	**Existing products in new markets** (new geographies) = **market development**.
3	(c)	A new regulatory requirement is a **legal** factor (it also has political roots, but the direct impact is legal compliance).
4	(b)	It gives **customer value**, is **rare** and **hard to imitate** – the test of a **core competence** (Prahalad and Hamel). In the value chain, it sits in procurement/inbound logistics.
5	(c)	High relative market share in a low-growth market = **cash cow**; its cash can fund the new markets and the millet range.
6	(b)	The GE/McKinsey matrix uses **industry attractiveness** and **business strength/competitive position**, each rated high, medium or low.
7	(b)	Unfreezing creates readiness; **changing** is where new behaviour is learnt (through compliance, identification and internalisation); refreezing makes it stick.
8	(b)	**Premise control** systematically checks whether the planning premises (environment, industry assumptions) still hold.

Section A – Descriptive Questions (35 marks)

Question 1 is compulsory. Answer any two of Questions 2, 3 and 4. Tax rate is 25% wherever not stated.

Q1 (a) (5 marks). The capital structure of Sagar Ltd. is: equity share capital ₹20,00,000 (shares of ₹10 each); reserves and surplus ₹10,00,000; 10% preference shares ₹5,00,000; 12% debentures ₹15,00,000. The equity share is quoted at ₹45; the last dividend paid was ₹3 per share and dividends are expected to grow at 8% p.a. Preference shares and debentures trade at par. Compute the WACC using (i) book-value weights and (ii) market-value weights.

(b) (5 marks). Mohan Ltd. (3,00,000 equity shares, no debt) needs ₹30,00,000 for expansion. Plan A: issue equity shares at ₹50; Plan B: issue 12% debentures. Expected EBIT after expansion is ₹12,00,000. Compute EPS under both plans, the EBIT at which the plans are indifferent, and advise.

(c) (5 marks). Estimate the net working capital of Kavya Ltd.: annual output and sales 60,000 units (produced evenly); cost per unit – raw material ₹40, labour ₹20, overheads ₹20; selling price ₹100. Raw materials in stock 1 month; work-in-progress ½ month (materials 100% and conversion 50% complete); finished goods 1 month; debtors 2 months (take at cost); creditors 1 month; wages paid ½ month in arrear; cash balance ₹50,000.

Q2 (a) (6 marks). Ravi Ltd. has an old machine with a book value of ₹2,00,000 and remaining life of 4 years (no salvage at the end). It can be sold now for ₹1,00,000. A new machine costs ₹6,00,000, has a 4-year life with no salvage, and will save cash operating costs of ₹2,00,000 p.a. Depreciation is straight-line; tax 30%; cost of capital 10% (PVAF 10%, 4 years = 3.170). Ignore tax on the sale of the old machine. Should the machine be replaced?

(b) (4 marks). Sales ₹50,00,000; variable cost 60% of sales; fixed operating cost ₹8,00,000; 10% debt ₹20,00,000; 2,00,000 equity shares. Compute DOL, DFL, DCL and EPS.

Q3 (a) (6 marks). Earnings per share of Arjun Ltd. are ₹8, its cost of equity 12% and its return on investment 15%. Compute the market price per share using Walter's model for payout ratios of 25%, 50% and 100%, and the price using Gordon's model at 50% payout. Comment on the optimum payout.

(b) (4 marks). A supplier offers terms of "2/10, net 40". Compute the annual cost of not taking the cash discount (365-day year) and state when the firm should avail the discount.

Q4 (a) (4 marks). "Wealth maximisation is a better objective than profit maximisation." Explain.

(b) (4 marks). Explain the methods of venture capital financing.

(c) (2 marks). What are Masala bonds?

OR (c) (2 marks). What is agency cost?

Section B – Descriptive Questions (35 marks)

Question 5 is compulsory. Answer any two of Questions 6, 7 and 8.

Q5 (a) (5 marks). Sunrise Textiles has made losses for three years, its debts are rising, its best employees are leaving and its market share is falling. The board has hired a new CEO. Identify the strategy needed and explain the action plan (elements) of this strategy.

(b) (5 marks). A cement company plans (i) to enter the ready-mix concrete business and (ii) separately to start a chain of hotels. Classify each move as a type of diversification and give one benefit and one risk of each.

(c) (5 marks). Indian sugar-based soft-drink makers face rising sales of coconut water, flavoured milk and kombucha. Which of Porter's five forces does this show? Explain when this force is strong and how firms can respond.

Q6 (a) (5 marks). Distinguish between vision and mission, giving the features of a good mission statement.

(b) (5 marks). What is a core competence? State the three tests for identifying one.

Q7 (a) (5 marks). Distinguish between strategy formulation and strategy implementation.

(b) (5 marks). Explain the types of strategic control.

Q8 (a) (5 marks). Explain the BCG growth-share matrix and its limitations.

(b) (5 marks). What is corporate culture? How does it help or hinder strategy implementation?

OR (b) (5 marks). Explain the matrix organisation structure, its advantages and disadvantages.

Solutions – Section A (FM)

SOLUTION Q1(a) WACC – Sagar Ltd.

Ke = D1 ÷ P0 + g = (3 × 1.08) ÷ 45 + 0.08 = 0.072 + 0.08 = **15.20%**; Kp = **10%**; Kd = 12% × (1 − 0.25) = **9%**.

Source	Book value (₹)	Weight	Market value (₹)	Weight	Cost
Equity (incl. reserves)	30,00,000	0.60	90,00,000 (2,00,000 × ₹45)	0.818	15.20%
Preference shares	5,00,000	0.10	5,00,000	0.045	10.00%
Debentures	15,00,000	0.30	15,00,000	0.136	9.00%
Total	**50,00,000**	1.00	**1,10,00,000**	1.00	

Book-value WACC = 0.60 × 15.2 + 0.10 × 10 + 0.30 × 9 = 9.12 + 1.00 + 2.70 = **12.82%**. Market-value WACC = (90 × 15.2 + 5 × 10 + 15 × 9) ÷ 110 = 1,553 ÷ 110 = **14.12%**. Reserves are part of equity under book values; under market values they are already reflected in the share price.

SOLUTION Q1(b) EBIT–EPS – Mohan Ltd.

Particulars	Plan A – Equity (₹)	Plan B – Debt (₹)
EBIT	12,00,000	12,00,000
Interest (12% × 30,00,000)	–	3,60,000
EBT	12,00,000	8,40,000
Tax 25%	3,00,000	2,10,000
PAT	9,00,000	6,30,000
Number of shares	3,60,000 (3,00,000 + 60,000)	3,00,000
EPS	**2.50**	**2.10**

Indifference: EBIT × 0.75 ÷ 3,60,000 = (EBIT − 3,60,000) × 0.75 ÷ 3,00,000 → 3,00,000 EBIT = 3,60,000 EBIT − 3,60,000 × 3,60,000 → **EBIT = ₹21,60,000**. As expected EBIT (₹12 lakh) is **below** the indifference point, **Plan A (equity)** gives a higher EPS and is advised.

SOLUTION Q1(c) Working capital – Kavya Ltd. (monthly output 5,000 units)

Particulars	Workings	₹
Raw material stock	5,000 × 40 × 1	2,00,000
WIP – materials	2,500 × 40	1,00,000
WIP – conversion (50%)	2,500 × 40 × 50%	50,000
Finished goods (at cost)	5,000 × 80 × 1	4,00,000
Debtors (at cost)	5,000 × 80 × 2	8,00,000
Cash		50,000
Current assets		**16,00,000**
Less: creditors	5,000 × 40 × 1	2,00,000
Less: wages outstanding	5,000 × 20 × ½	50,000
Net working capital		**13,50,000**

SOLUTION Q2(a) Replacement decision – Ravi Ltd.

Net outlay = 6,00,000 − 1,00,000 = **₹5,00,000**. Incremental depreciation = 6,00,000 ÷ 4 − 2,00,000 ÷ 4 = 1,50,000 − 50,000 = 1,00,000. Incremental CFAT = (2,00,000 − 1,00,000) × 0.70 + 1,00,000 = **₹1,70,000** p.a. PV = 1,70,000 × 3.170 = 5,38,900. **NPV = +₹38,900** → **replace** the machine.

SOLUTION Q2(b) Leverages

Contribution = 50,00,000 × 40% = 20,00,000; EBIT = 20,00,000 − 8,00,000 = 12,00,000; interest 2,00,000; EBT 10,00,000; PAT 7,50,000. **DOL** = 20 ÷ 12 = **1.67**; **DFL** = 12 ÷ 10 = **1.20**; **DCL** = 20 ÷ 10 = **2.00**; **EPS** = 7,50,000 ÷ 2,00,000 = **₹3.75**.

SOLUTION Q3(a) Walter and Gordon – Arjun Ltd.

Walter: P = [D + (r ÷ ke)(E − D)] ÷ ke, with r ÷ ke = 0.15 ÷ 0.12 = 1.25.

Payout	D (₹)	Workings	Price (₹)
25%	2	(2 + 1.25 × 6) ÷ 0.12	**79.17**
50%	4	(4 + 1.25 × 4) ÷ 0.12	**75.00**
100%	8	8 ÷ 0.12	**66.67**

Gordon (50%): g = b × r = 0.5 × 15% = 7.5%; P = D1 ÷ (ke − g) = 4 ÷ (0.12 − 0.075) = **₹88.89** (D1 = E1 × payout; earnings taken as next year's). As r > ke (growth firm), price rises as payout falls – the **optimum payout is zero** under Walter's model.

SOLUTION Q3(b) Cost of forgoing the cash discount

Cost = [d ÷ (100 − d)] × [365 ÷ (credit days − discount days)] = (2 ÷ 98) × (365 ÷ 30) = **24.83% p.a.** The firm should take the discount if it can borrow at less than 24.83% (or its funds earn less than this); otherwise pay on day 40.

SOLUTION Q4(a) Wealth vs profit maximisation

Profit maximisation (i) is **vague** (which profit – before/after tax, short/long term?), (ii) **ignores the timing** of returns (time value of money), (iii) **ignores risk**, and (iv) may encourage short-term actions that harm the firm. Wealth maximisation aims to maximise the **market value of shares** = PV of future cash flows discounted at a risk-adjusted rate; it **considers time value and risk**, uses **cash flows** rather than accounting profit, and serves shareholders' long-term interest. So it is the accepted objective of FM. Profit is still a useful **operating** goal within it.

SOLUTION Q4(b) Methods of venture capital financing

(1) **Equity financing** – VC takes up equity (usually up to 49%) so the owner keeps control; return through exit. (2) **Conditional loan** – no interest; a **royalty** (e.g. 2–15%) on sales is paid once the venture earns revenue. (3) **Income note** – a hybrid of conventional and conditional loan; low interest plus royalty on sales. (4) **Participating debentures** – interest at different rates by phase: nil in the start-up phase, low until the venture reaches a set level, high thereafter. Other forms: convertible debentures/preference shares. VERIFY

SOLUTION Q4(c) Masala bonds

Rupee-denominated bonds issued **outside India** by Indian entities to raise money from foreign investors; the **currency risk is borne by the investor**, not the issuer.

SOLUTION Q4 OR (c) Agency cost

The cost arising from the conflict between owners (principals) and managers (agents) – costs of **monitoring** (audit, control systems), **bonding**, and the **loss** from decisions that do not maximise shareholders' wealth. It is reduced by incentive pay (ESOPs), governance and monitoring.

Solutions – Section B (SM)

SOLUTION Q5(a) Turnaround strategy – Sunrise Textiles

The symptoms (persistent losses, rising debt, attrition, falling share) call for a **turnaround strategy** – reversing a declining trend. Action plan: (1) **Assess the current problems** – find the extent of damage and its causes. (2) **Analyse the situation and develop a strategic plan** – identify strengths to build on and prepare a plan with targets. (3) **Implement an emergency action plan** – cut costs, sell non-core assets, restructure debt, stop the cash drain. (4) **Restructure the business** – focus on viable products and markets, improve operations. (5) **Return to normal** – rebuild morale, regain market share and profitability. A new CEO, clear communication and quick wins are essential.

SOLUTION Q5(b) Diversification

(i) Ready-mix concrete uses the same raw material, technology and customers – **related (concentric) diversification**. Benefit: synergy and shared distribution; risk: dependence on the same construction cycle. (ii) Hotels are unrelated to cement – **conglomerate (unrelated) diversification**. Benefit: spreads risk across industries with different cycles; risk: no expertise or synergy, management stretched.

SOLUTION Q5(c) Threat of substitutes

This is the **threat of substitute products** – different products meeting the same need (refreshment). It is strong when substitutes offer a **better price-performance**, **switching costs are low**, and buyers are willing to switch (here, health trends). Responses: differentiate (low-sugar, new flavours), improve value, build brand loyalty, or **enter the substitute segment** (acquire or launch a healthy-drinks range).

SOLUTION Q6(a) Vision vs mission

Vision is a long-term picture of what the organisation **wants to become** (future, inspirational). **Mission** states **who we are and what we do** – purpose, customers, products and scope (present-focused). Vision answers "where are we going?"; mission answers "what is our business?". A good mission: is **feasible**, **precise** (neither too narrow nor too broad), **clear**, **motivating**, **distinctive**, indicates **major components of strategy** and how objectives are met.

SOLUTION Q6(b) Core competence

A core competence is a unique combination of skills, technology and know-how that gives a firm a **lasting competitive advantage** and is central to its strategy. Prahalad and Hamel's tests: (1) **Customer value** – it makes a significant contribution to the benefits customers perceive; (2) **Competitor differentiation / hard to imitate** – rivals cannot easily copy it; (3) **Extendability / access to markets** – it can be applied to a range of products and markets.

SOLUTION Q7(a) Formulation vs implementation

Formulation	Implementation
Positioning forces **before** action	Managing forces **during** action
Focus on **effectiveness**	Focus on **efficiency**
Mainly an **intellectual** process	Mainly an **operational** process
Needs intuitive and analytical skills	Needs motivation and leadership skills
Coordination among a few top managers	Coordination among many people

The two are interdependent: a sound strategy poorly implemented fails, as does a poor strategy well implemented.

SOLUTION Q7(b) Types of strategic control

(1) **Premise control** – checks the validity of planning assumptions. (2) **Strategic surveillance** – a broad, unfocused watch of the environment for events that could affect strategy. (3) **Special alert control** – a rapid response to sudden, unexpected events (crisis teams). (4) **Implementation control** – monitors milestones and strategic thrusts to judge whether the overall strategy needs change. In addition, **operational control** checks short-term performance against standards.

SOLUTION Q8(a) BCG matrix

Plots business units on **market growth rate** (vertical) and **relative market share** (horizontal): **Stars** (high growth, high share – invest), **Cash cows** (low growth, high share – milk cash), **Question marks** (high growth, low share – invest selectively or divest), **Dogs** (low growth, low share – harvest or divest). Limitations: only two variables; "high/low" is subjective; market share does not always mean profit; ignores synergies; hard to define the market; dogs can still be useful.

SOLUTION Q8(b) Corporate culture

Culture is the shared **values, beliefs, attitudes and norms** that shape how people behave in an organisation. **Strength:** a culture aligned with strategy creates commitment, speeds decisions, reduces the need for formal controls and becomes a source of advantage. **Weakness:** a strong culture that clashes with a new strategy causes **resistance to change** and slows implementation (e.g. a bureaucratic culture under an innovation strategy). Managers must align culture with strategy – through leadership, communication, rewards and hiring.

SOLUTION Q8 OR (b) Matrix structure

A matrix structure has **dual lines of authority** – functional and project/product – so employees report to two bosses. Advantages: efficient use of specialists, flexibility, better coordination for complex projects, develops managers. Disadvantages: confusion from dual reporting, power struggles, slower decisions, higher overhead costs. Suitable when products/projects and functions are both important.