Skillshort

Self-Study Preparation Pack

CA INTERMEDIATE

Paper 6: Financial Management and Strategic Management

Mock Test 2 – 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. Tax rate 25% unless stated.

CASE LAW Case Scenario I – Prakash Engineering Ltd. (MCQs 1–5)

Prakash Engineering Ltd. has **10,00,000 equity shares of ₹10** each and no debt. It needs **₹50,00,000** for a new plant, after which EBIT is expected to be **₹40,00,000**. Options: **Plan A** – equity shares at ₹25 each; **Plan B** – 10% debentures of ₹50,00,000; **Plan C** – half equity at ₹25 and half 10% debentures. Tax rate 25%. The P/E ratio is expected to be 12 under all plans.

1. EPS under Plan A is

(a) ₹3.00 (b) ₹2.50
(c) ₹2.63 (d) ₹2.56

2. EPS under Plan B is

(a) ₹2.63 (b) ₹2.50
(c) ₹3.00 (d) ₹2.19

3. EPS under Plan C is

(a) ₹2.50 (b) ₹2.63
(c) ₹2.56 (d) ₹2.81

4. The EBIT at which Plans A and B give the same EPS is

(a) ₹25,00,000 (b) ₹30,00,000
(c) ₹35,00,000 (d) ₹40,00,000

5. The expected market price per share under Plan B and its DFL are

(a) ₹31.50 and 1.14 (b) ₹30.00 and 1.25
(c) ₹31.50 and 1.25 (d) ₹30.68 and 1.14

6. The last dividend of a share was ₹2, expected growth is 10% and the share price is ₹44. The cost of equity is

(a) 14.55% (b) 15.00%
(c) 12.50% (d) 15.50%

7. The annual cost of not taking a discount under terms "1/10, net 20" (365 days) is about

(a) 18.43% (b) 36.87%
(c) 12.17% (d) 1.01%

8. (1 mark) Raw material holding 30 days, WIP 10 days, finished goods 20 days, debtors 45 days and creditors 35 days. The net operating cycle is

(a) 105 days (b) 140 days
(c) 70 days (d) 60 days

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	New shares 50,00,000 ÷ 25 = 2,00,000; total 12,00,000. PAT = 40,00,000 × 0.75 = 30,00,000; EPS = **₹2.50**.
2	(a)	Interest 5,00,000; PAT = 35,00,000 × 0.75 = 26,25,000 ÷ 10,00,000 = **₹2.625 ≈ ₹2.63**.
3	(c)	Shares 11,00,000; interest 2,50,000; PAT = 37,50,000 × 0.75 = 28,12,500; EPS = **₹2.56**.
4	(b)	EBIT × 0.75 ÷ 12,00,000 = (EBIT − 5,00,000) × 0.75 ÷ 10,00,000 → 10 EBIT = 12 EBIT − 60,00,000 → **EBIT = ₹30,00,000**.
5	(a)	MPS = 2.625 × 12 = **₹31.50**; DFL = EBIT ÷ EBT = 40 ÷ 35 = **1.14**.

Q	Ans	Explanation / working
6	(b)	Ke = D0(1 + g) ÷ P0 + g = 2.20 ÷ 44 + 0.10 = **15%**.
7	(b)	(1 ÷ 99) × 365 ÷ (20 − 10) = **36.87%**.
8	(c)	30 + 10 + 20 + 45 − 35 = **70 days**.

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 – VoltRide Mobility (MCQs 9–13)

VoltRide is a Pune-based maker of electric scooters. It offers good features at a price lower than premium EV brands but above budget brands. To overcome a shortage of battery cells, it has signed a **long-term partnership with a Korean cell maker** – both keep separate ownership, but share technology and jointly fund a plant. Its internal review notes "**limited service network**" as a concern, while the founder sees "**State subsidies for EVs in Tier-2 cities**" as a big chance. The board finds that the engineering and sales teams have very different values and ways of working after a recent merger with a smaller start-up. The CEO is a visionary who inspires employees to look beyond self-interest for a "clean-air India".

1. VoltRide's generic competitive strategy is

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

2. The arrangement with the Korean cell maker is a

(a) Merger
(b) Acquisition
(c) Strategic alliance (joint venture-type)
(d) Backward vertical integration through ownership

3. In a SWOT analysis, "limited service network" and "State subsidies for EVs" are respectively

(a) Threat and Strength
(b) Weakness and Opportunity
(c) Weakness and Strength
(d) Threat and Opportunity

4. The clash of values between teams after the merger relates to which of the McKinsey 7S elements?

(a) Structure
(b) Systems
(c) Shared values (and style)
(d) Strategy

5. The CEO's leadership style is

(a) Transactional
(b) Transformational
(c) Laissez-faire
(d) Autocratic

6. Comparing one's processes with those of best-in-class organisations, even in other industries, to improve performance is called

(a) Business process re-engineering
(b) Benchmarking
(c) Value chain analysis
(d) Total quality management

7. A firm sells off a business unit that no longer fits its core business. This is

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

8. (1 mark) A chart grouping rivals by two key competitive characteristics such as price and product range is a

(a) BCG matrix
(b) Strategic group map
(c) Ansoff matrix
(d) Value chain

Section B – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	It gives **more value for money** – good features at a price below premium rivals – the **best-cost provider** strategy.
2	(c)	Two firms co-operate and share resources but **keep separate identities** – a **strategic alliance** (with a jointly funded plant, a joint-venture form). It secures supply without full ownership.
3	(b)	The service network is an **internal** limitation (**weakness**); subsidies are a favourable **external** factor (**opportunity**).
4	(c)	Values and ways of working are the "soft" S's – **shared values** and **style**; the 7S model says these must fit the strategy and structure.
5	(b)	Inspiring followers through vision to go **beyond self-interest** = **transformational leadership**; transactional leaders rely on rewards and penalties.
6	(b)	**Benchmarking** compares products, processes or practices with the best, then sets improvement targets.
7	(b)	**Divestment** is selling or closing a part of the business (a retrenchment strategy); liquidation closes the whole firm.
8	(b)	A **strategic group map** plots competitors on two characteristics to show who competes most closely.

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). A project costs ₹4,00,000 and yields cash flows after tax of ₹1,00,000, ₹1,20,000, ₹1,50,000 and ₹1,60,000 in years 1–4. Compute the NPV at 10% and 15% and the IRR. PV factors at 10%: 0.909, 0.826, 0.751, 0.683; at 15%: 0.870, 0.756, 0.658, 0.572. Should it be accepted if the cost of capital is 10%?

(b) (5 marks). Compute the WACC of Leela Ltd.: (i) 10% debentures of ₹100, issued at ₹96, redeemable at par after 10 years (weight 30%); (ii) 9% preference shares of ₹100, issued at ₹95, redeemable at par after 10 years (weight 20%); (iii) equity (weight 50%) – risk-free rate 7%, market return 13%, beta 1.1. Use the approximation method; dividends on preference shares are not tax-deductible.

(c) (5 marks). From the following, prepare the balance sheet of Rhea Ltd. (360-day year): current ratio 2.5; quick ratio 1.5; current liabilities ₹2,00,000; inventory turnover (on cost of goods sold) 6 times; gross profit 25% of sales; debtors' collection period 45 days (on sales); fixed assets turnover (on sales) 1.6 times; long-term debt to equity 0.25; share capital ₹6,00,000; the rest of the current assets is cash.

Q2 (a) (6 marks). Firms U and L are identical except that L has ₹20,00,000 of 10% debt; U is all-equity. Both earn EBIT of ₹10,00,000. The equity capitalisation rate of U is 12.5%. Assume no taxes. Compute the values of both firms under (i) the Net Operating Income approach (overall rate 12.5%) and (ii) the Net Income approach (Ke = 12.5% for both). Explain how arbitrage would work if the NI values prevailed.

(b) (4 marks). Distinguish between operating leverage and financial leverage.

Q3 (a) (6 marks). Asha Ltd. has annual credit sales of ₹30,00,000 on 30 days' credit with bad debts of 1%. It is considering: Policy B – 60 days' credit, sales ₹36,00,000, bad debts 2%, extra collection cost ₹20,000; Policy C – 90 days' credit, sales ₹40,00,000, bad debts 4%, extra collection cost ₹40,000. Variable cost is 75% of sales; pre-tax required return is 15%; take a 360-day year and value debtors at variable cost. Recommend a policy (ignore tax).

(b) (4 marks). Using the Miller–Orr model, compute the spread, the return point and the upper limit: lower limit ₹20,000; transaction cost ₹100 per transfer; variance of daily cash flows ₹40,00,000 (₹2,000 standard deviation); interest rate 0.03% per day.

Q4 (a) (4 marks). Explain factoring and its advantages.

(b) (4 marks). What is packing credit? State its types.

(c) (2 marks). State the DuPont formula for return on equity.

OR (c) (2 marks). What is peer-to-peer (P2P) lending?

Section B – Descriptive Questions (35 marks)

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

Q5 (a) (5 marks). A diversified FMCG group's paint division has low share, needs heavy capital and distracts top management. The board wants to sell it to a specialist paint company. Identify the strategy and explain when it is adopted and how it is carried out.

(b) (5 marks). Two airlines plan to share routes, code-share flights and jointly run a loyalty programme while remaining separate companies. Identify the arrangement and explain its advantages and disadvantages.

(c) (5 marks). A hospital chain wants to measure performance beyond financial results. Recommend a suitable tool and explain its four perspectives.

Q6 (a) (5 marks). Explain PESTLE analysis with an example of each factor for an Indian quick-commerce firm.

(b) (5 marks). What is a strategic group map? How is it constructed and used?

Q7 (a) (5 marks). Explain the Ansoff product–market growth matrix.

(b) (5 marks). What is vertical integration? Distinguish between backward and forward integration with examples.

Q8 (a) (5 marks). Explain the McKinsey 7S framework.

(b) (5 marks). Distinguish between transformational and transactional leadership.

OR (b) (5 marks). What is digital transformation? Explain its key drivers and challenges for strategy.

Solutions – Section A (FM)

SOLUTION Q1(a) NPV and IRR

Year	CFAT (₹)	PVF 10%	PV (₹)	PVF 15%	PV (₹)
1	1,00,000	0.909	90,900	0.870	87,000
2	1,20,000	0.826	99,120	0.756	90,720
3	1,50,000	0.751	1,12,650	0.658	98,700
4	1,60,000	0.683	1,09,280	0.572	91,520
Total PV			4,11,950		3,67,940
Less: outlay			4,00,000		4,00,000
NPV			**11,950**		**(32,060)**

IRR = 10% + [11,950 ÷ (11,950 + 32,060)] × 5% = 10% + 1.36% = **11.36%**. NPV is positive and IRR > 10% → **accept**.

SOLUTION Q1(b) WACC – Leela Ltd.

Kd = [I(1 – t) + (RV – NP) ÷ n] ÷ [(RV + NP) ÷ 2] = [10 × 0.75 + (100 – 96) ÷ 10] ÷ 98 = 7.9 ÷ 98 = **8.06%**. Kp = [9 + (100 – 95) ÷ 10] ÷ 97.5 = 9.5 ÷ 97.5 = **9.74%**. Ke = Rf + β(Rm – Rf) = 7 + 1.1 × 6 = **13.60%**. WACC = 0.5 × 13.60 + 0.2 × 9.74 + 0.3 × 8.06 = 6.80 + 1.95 + 2.42 = **11.17%**.

SOLUTION Q1(c) Balance sheet – Rhea Ltd.

Current assets = 2.5 × 2,00,000 = **5,00,000**; quick assets = 1.5 × 2,00,000 = 3,00,000 → inventory = **2,00,000**. COGS = 6 × 2,00,000 = 12,00,000; sales = 12,00,000 ÷ 0.75 = **16,00,000**. Debtors = 16,00,000 × 45 ÷ 360 = **2,00,000**; cash = 3,00,000 – 2,00,000 = **1,00,000**. Fixed assets = 16,00,000 ÷ 1.6 = **10,00,000**. Total assets 15,00,000; capital employed = 15,00,000 – 2,00,000 = 13,00,000. Debt ÷ equity = 0.25 → equity = 13,00,000 ÷ 1.25 = **10,40,000**; long-term debt **2,60,000**; reserves = 10,40,000 – 6,00,000 = **4,40,000**.

Liabilities	₹	Assets	₹
Share capital	6,00,000	Fixed assets	10,00,000
Reserves and surplus	4,40,000	Inventory	2,00,000
Long-term debt	2,60,000	Debtors	2,00,000
Current liabilities	2,00,000	Cash	1,00,000
Total	**15,00,000**	**Total**	**15,00,000**

SOLUTION Q2(a) NI and NOI approaches

NOI: value of each firm = EBIT ÷ Ko = 10,00,000 ÷ 0.125 = **₹80,00,000**. For L, equity = 80,00,000 – 20,00,000 = 60,00,000 and Ke = (10,00,000 – 2,00,000) ÷ 60,00,000 = 13.33% (rises with leverage). **NI:** U = 10,00,000 ÷ 0.125 = **₹80,00,000**; L: equity = 8,00,000 ÷ 0.125 = 64,00,000 + debt 20,00,000 = **₹84,00,000**. **Arbitrage:** an investor holding, say, 10% of L's equity (₹6,40,000, income ₹80,000) sells it, borrows 10% of L's debt (₹2,00,000 at 10%) personally, and buys 10% of U for ₹8,00,000 – income 1,00,000 – 20,000 = ₹80,000, the same as before, with ₹40,000 surplus cash. Selling L and buying U continues until the two values are equal (MM's argument – personal leverage replaces corporate leverage).

SOLUTION Q2(b) Operating vs financial leverage

Operating leverage	Financial leverage
Arises from **fixed operating costs**	Arises from **fixed financial charges** (interest, preference dividend)
Effect of change in **sales on EBIT**	Effect of change in **EBIT on EPS**
DOL = Contribution ÷ EBIT	DFL = EBIT ÷ EBT (adjusted for preference dividend)
Measures **business risk**	Measures **financial risk**
Depends on cost structure	Depends on capital structure

SOLUTION Q3(a) Credit policy – Asha Ltd.

Particulars (₹)	A – 30 days	B – 60 days	C – 90 days
Sales	30,00,000	36,00,000	40,00,000
Contribution (25%)	7,50,000	9,00,000	10,00,000
Investment in debtors (VC × days ÷ 360)	1,87,500	4,50,000	7,50,000
Less: cost of funds 15%	28,125	67,500	1,12,500
Less: bad debts	30,000	72,000	1,60,000
Less: extra collection cost	–	20,000	40,000
Net benefit	**6,91,875**	**7,40,500**	**6,87,500**

Policy B (60 days) gives the highest net benefit (₹48,625 more than the present policy) and is recommended.

SOLUTION Q3(b) Miller–Orr

Spread = 3 × [¾ × transaction cost × variance ÷ interest rate]^(1/3) = 3 × [0.75 × 100 × 40,00,000 ÷ 0.0003]^(1/3) = 3 × (10^12)^(1/3) = 3 × 10,000 = **₹30,000**. Upper limit = 20,000 + 30,000 = **₹50,000**; return point = lower limit + spread ÷ 3 = **₹30,000**. When cash reaches ₹50,000, invest ₹20,000 in securities; when it falls to ₹20,000, sell ₹10,000 of securities.

SOLUTION Q4(a) Factoring

Factoring is an arrangement in which a **factor** (bank/NBFC) buys the firm's trade receivables and provides **finance** (advance of 75–90%), **sales-ledger administration**, **collection** and, in non-recourse factoring, **credit protection**. Advantages: converts receivables into cash quickly, cuts collection costs and management time, improves liquidity and the current ratio, provides credit information on customers, and (non-recourse) protects against bad debts. Costs: commission and interest. VERIFY

SOLUTION Q4(b) Packing credit

Packing credit is a **pre-shipment loan** to an exporter to buy raw materials, process, pack and ship goods against a confirmed order or letter of credit. Types: (1) **clean packing credit** – no security other than the order/LC; (2) **packing credit against hypothecation** of goods; (3) **packing credit against pledge** of goods; (4) **ECGC-guaranteed** packing credit. It is repaid from export proceeds (or converted into post-shipment credit).

SOLUTION Q4(c) DuPont

ROE = **Net profit margin × Asset turnover × Equity multiplier** = (PAT ÷ Sales) × (Sales ÷ Total assets) × (Total assets ÷ Equity).

SOLUTION Q4 OR (c) P2P lending

Lending of money by individuals to individuals or businesses through an **online platform** that matches lenders and borrowers, without a bank as intermediary; in India P2P platforms are regulated by the RBI as NBFC-P2P.

Solutions – Section B (SM)

SOLUTION Q5(a) Divestment strategy

This is **divestment** – selling or liquidating a portion of the business (a retrenchment strategy). It is adopted when: the unit is a **persistent drag** on performance; it **does not fit** the firm's core competence; it needs **more resources** than the firm can give; there is better use for the capital; or a **mismatch** arises after an acquisition. Steps: decide to divest, find the best buyer (a strategic buyer like a specialist paint company pays more), value and negotiate, transfer employees and contracts, and redeploy the proceeds in the core FMCG business.

SOLUTION Q5(b) Strategic alliance

The arrangement is a **strategic alliance** – a co-operative relationship in which firms pursue shared goals while staying **independent**. Advantages: access to new routes and markets, sharing of costs and risks, use of each other's resources and know-how, faster growth without merger. Disadvantages: risk of sharing sensitive information, conflict of objectives and cultures, unequal benefits, dependence on the partner, and difficulty in managing and exiting.

SOLUTION Q5(c) Balanced scorecard

A **balanced scorecard** (Kaplan and Norton) links strategy to measures in four perspectives: (1) **Financial** – revenue per bed, cost per patient, profit; (2) **Customer** – patient satisfaction, waiting time, readmissions; (3) **Internal business processes** – bed turnover, infection rates, discharge time; (4) **Learning and growth** – staff training, retention, IT capability. It balances short-term financial measures with drivers of long-term performance.

SOLUTION Q6(a) PESTLE – quick-commerce firm

Political – government policy on FDI in e-commerce inventory models; **Economic** – urban disposable income, inflation, fuel prices; **Social** – busy urban lifestyles, demand for 10-minute delivery; **Technological** – app platforms, AI-based demand forecasting, dark-store automation; **Legal** – consumer protection (e-commerce) rules, labour codes for gig workers, FSSAI norms; **Environmental** – packaging waste rules, EV delivery fleets. VERIFY

SOLUTION Q6(b) Strategic group map

Firms in an industry with **similar strategies** form a strategic group. Construction: (1) identify the characteristics that differentiate firms (price/quality, product range, geographic coverage, channels); (2) plot firms on a two-variable map using pairs of these; (3) put firms in the same strategy space in one group; (4) draw circles proportional to each group's share of industry sales. Use: shows **closest rivals**, gaps (white space) and which positions are attractive; the variables should not be highly correlated.

SOLUTION Q7(a) Ansoff matrix

	Existing products	New products
Existing markets	**Market penetration** – sell more to current customers (lowest risk)	**Product development** – new products for current markets
New markets	**Market development** – current products in new segments or regions	**Diversification** – new products in new markets (highest risk)

The matrix helps choose growth direction according to risk.

SOLUTION Q7(b) Vertical integration

Vertical integration is extending the firm's activities **within the same value chain**. **Backward integration** – moving towards **sources of supply** (e.g. a steel company acquiring iron-ore mines; a car maker making batteries). **Forward integration** – moving towards the **end customer** (e.g. a textile mill opening its own retail stores). Benefits: control over supply or distribution, cost saving, quality. Risks: high capital, less flexibility, dependence on one industry.

SOLUTION Q8(a) McKinsey 7S

Seven interdependent elements must be aligned for effectiveness. **Hard S's: Strategy** (plan to gain advantage), **Structure** (organisation chart, reporting lines), **Systems** (processes and procedures). **Soft S's: Shared values** (core beliefs – at the centre), **Style** (leadership style), **Staff** (people and their development), **Skills** (capabilities). A change in one element (e.g. strategy) needs matching changes in the others.

SOLUTION Q8(b) Transformational vs transactional leadership

Transformational	Transactional
Inspires through **vision** and charisma	Motivates through **rewards and punishments**
Encourages followers to look **beyond self-interest**	Appeals to followers' **self-interest**
Suited to **change**, turbulent environments, new strategies	Suited to **stable** environments, maintaining the status quo
Focuses on innovation and long-term goals	Focuses on efficiency, rules and short-term goals

SOLUTION Q8 OR (b) Digital transformation

Digital transformation is the use of digital technologies (cloud, AI, analytics, mobile, IoT) to **fundamentally change** how a business operates and delivers value to customers. Drivers: changing customer expectations, competition from digital-native firms, cost pressure, data availability. Challenges: legacy systems, skills gaps, resistance to change, cyber-security and data-privacy risks, and high investment. Strategy must be led from the top, with culture and people change alongside technology.