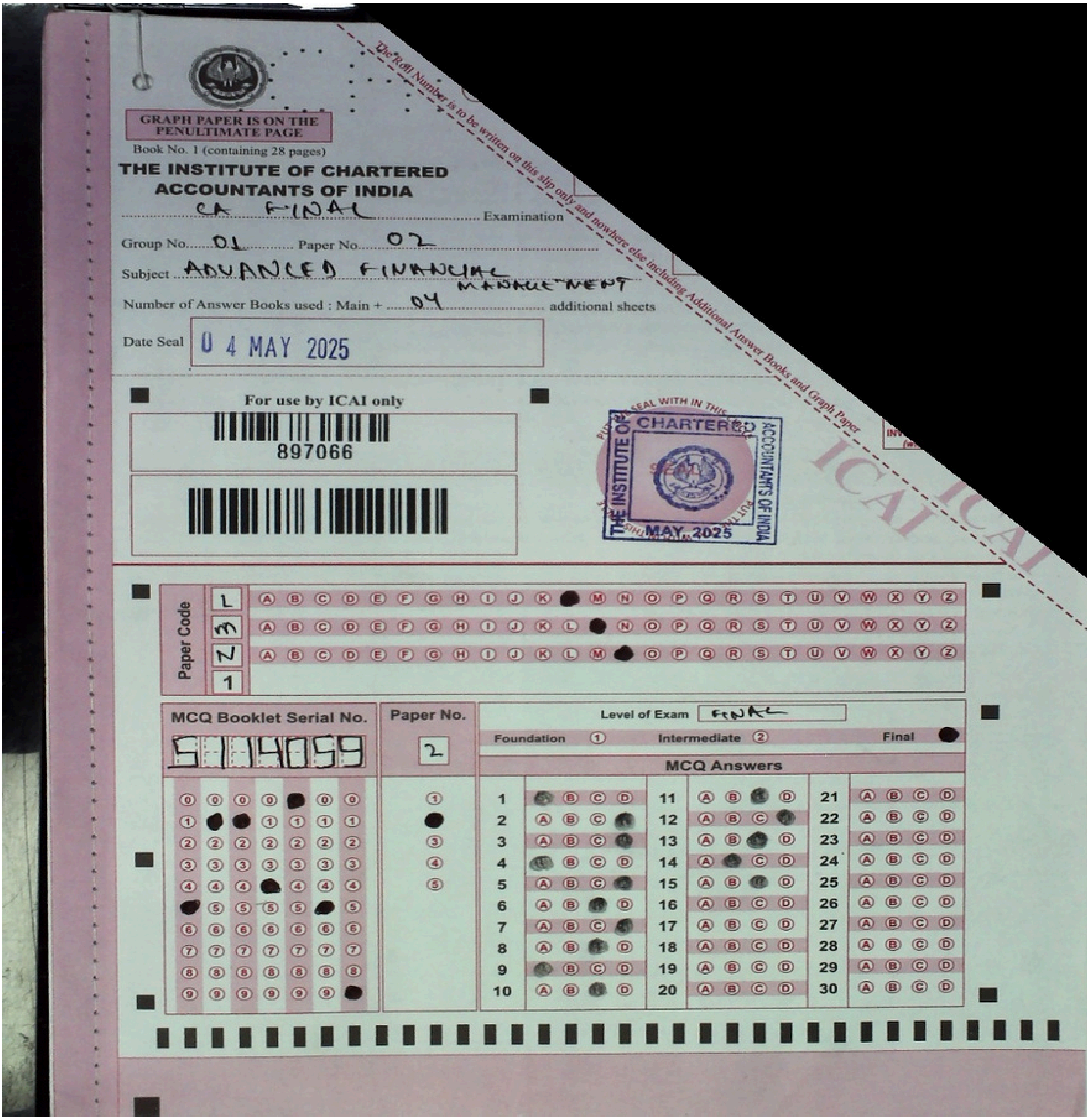
CA FINAL

AFM Topper Answer Sheet



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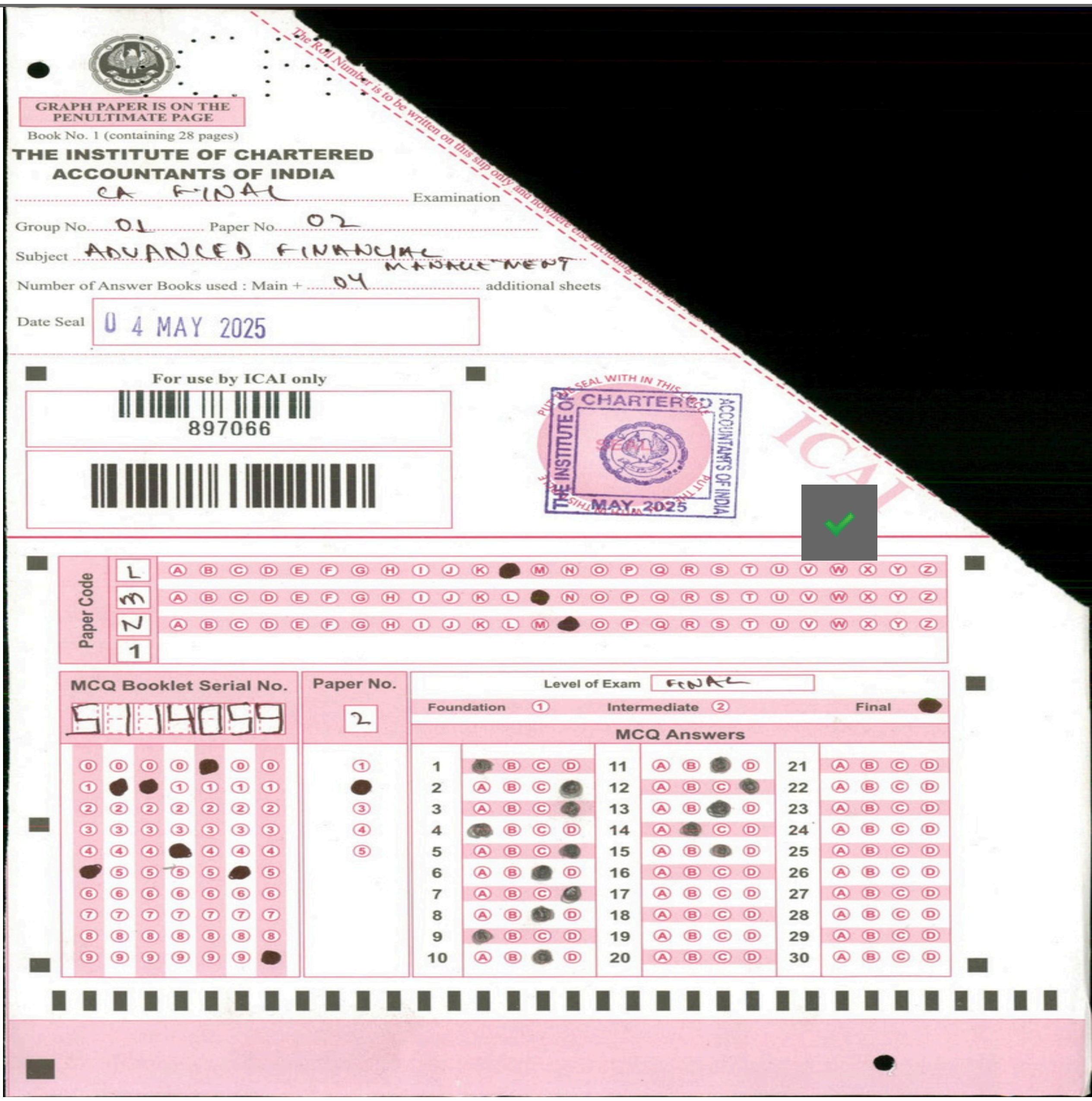
Code: FN2AF897066 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 59


GRAPH PAPER IS ON THE PENULTIMATE PAGE
Book No. 1 (containing 28 pages)
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
CA FINAL Examination
Group No. 01 Paper No. 02
Subject ADVANCED FINANCIAL MANAGEMENT
Number of Answer Books used : Main + 04 additional sheets
Date Seal 04 MAY 2025
The Roll Number is to be written on this slip only and nowhere else including...
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897066
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
MAY, 2025
Paper Code L M N 1
MCQ Booklet Serial No. 5114059
Paper No. 2
Level of Exam FINAL
Foundation 1 Intermediate 2 Final
MCQ Answers

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"786", etc., will tantamount to adoption of "unfair means"

r book to the invigilator take care to score out (X) blank pages, if any, that you

Illustration for Filling the MCQ Booklet Serial No.

0 1 2 3 4 5 6 7 8 9

CTIONS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

3. Pencil to Darken the appropriate Circle.

darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken evaluation.

any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying th

ase darken the complete circle.

If you want to change your Answer, erase the darkened circle completely and make a fresh mark.

5. Please do NOT make any stray marks on the OMR cover page.

6. Rough work must NOT be done on the OMR cover page.

7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD WRONG METHOD

Q. No.	To be ticked ✓ by the candidate against the Questions answered (Descriptive Type)		
1	✓	8	
2	✓	9	
3	✓	10	
4	✓	11	
5		12	
6	✓	13	
7		14	
Total		Total	

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ICAI 03

Answer 2(a)

Answer 2 (a)

$$\sigma_P = \sqrt{\sigma_R^2 \times w_R^2 + \sigma_S^2 \times w_S^2 + 2 \times \sigma_R \times \sigma_S \times w_R \times w_S \times r_{RS}}$$

~~state~~

(i)

since, securities are independent

therefore $r_{RS} = 0$

S.D. of portfolio (σ_P)

$$= \sqrt{(20\%)^2 \times (0.8)^2 + \cancel{0.5}(50\%)^2 \times (0.2)^2 + 2 \times 20\% \times 0.8 \times 50\% \times 0.2 \times 0}$$

2aStep1 2

$$= \sqrt{256 + 100}$$

$\sigma_P = 18.87\%$

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04

(ii) Since, securities are perfectly negatively correlated

So,

$r = -1$

$$\sigma_p = \sqrt{(20\%)^2 \times (0.8)^2 + (50\%)^2 \times (0.2)^2 + 2 \times 20\% \times 50\% \times 0.2 \times 0.8 \times -1}$$

$$= \sqrt{256 + 100 + (-320)}$$

2aStep2 2 $= \sqrt{36}$

$\sigma_p = 6\%$

(iii) Since securities are perfectly positively correlated

So,

$r = 1$

$$\sigma_p = \sqrt{(20\%)^2 \times (0.8)^2 + (50\%)^2 \times (0.2)^2 + 2 \times 20\% \times 50\% \times 0.2 \times 0.8 \times 1}$$

2aStep3 2 $= \sqrt{256 + 100 + 320}$

2a 6 $\sigma_p = 26\%$

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ICAI 05

Ans 2(b)

(i)
In order to get ₹ 40,00,000 after 2 months, Mr. X needs to enter into 2 month forward contract of buying ₹ & selling $.
So 2 month forward rate
1 US$ = ₹ 88

Dollars to be sold = $\frac{40,00,000}{88}$
= 45454.55 US$

(ii)
Rate for Buying US $ at spot
1 US$ = ₹ 86.20

Rupees required to pay to obtain 300000 US $
= 300000 US $ × ₹86.20
= 2,58,60,000

2bStep1 2

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06

(iii)

option 1. converting USD $ after 2 months.

₹ after 2 months = 75000 US$ × 88 ₹ = 66,00,000

option 2 converting now & earning @ 12%.

₹ value at spot = 75000 US$ × 86 ₹ = 64,50,000

2bStep2 2

(+) interest for 2 months @ 12%

(6450000 × 12% × 2/12) 129000

total balance after 2 months 6579000

2b 4

Since, amount ~~too~~ is greater in converting US$ after 2 months instead of converting now & earning 12%. therefore Mr. X should convert US$ after 2 months.

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ICAI 07

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as there would be gain of

= 6600000 - 6579000

= 21000 ₹

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Answer 2(C)

Answer 2(C)

→ Earlier, CFO had a traditional role of looking into financial activities & focused on wealth maximization.

→ But since pandemic, there is increase in globalisation & there is increase in digitalization leading CFO to assume additional roles apart from traditional roles.

→ CFO is assumed to have leadership role in the organization to guide everyone & to lead towards achievement of organizational goals. Besides, CFO has following additional roles.

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ICAI 09

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(i) Supply chain

CFO is assumed to maintain proper supply chain of goods, inflow, outflow, logistics, so that there is optimum utilization of resources, & no wastage of time due to supply chain failure.

(ii) Risk management

Entity faces lots of risk like operational risk, financial risk, strategic risk, credit risk, interest rate etc. CFO shall identify risk & assess, it to take steps in order to mitigate the risk

(iii) Merger Acquisitions & corporate Restructuring

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CFO shall look for opportunities to acquire others in order to unlock the potential & to gain from potential synergies of merger & acquisition.

(IV) ESG Financing

While looking for financing options, CFO shall consider factors like environmental, social, governance for betterment of society apart from traditional parameters like interest rate, cost of funds, transaction cost etc.

2cStep1 4

2c 4

2 14

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ICAI 11

Ans 3(a)

Ans 3(a)

(in ₹)

Calculation of NPV in real terms

~~Net operating after tax For year 1 to 5~~

~~cash operating~~

Calculation of annual cash flow

Particulars	Amt(₹)
Incremental cash operating income	2500000
(–) Depreciation p.a. $\left(\frac{70,00,000 - \text{zero}}{5}\right)$	14,00,000
Operating income before tax	11,00,000
(–) tax @ 35%	385000
Net operating income after tax	715000

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(4) Depreciation 14,00,000

Cash flow annually 21,15,000

Calculation of NPV

Year	Cash flow	DF factor @ 10%	Present value
0	~~700000~~		
0			
1	2115000 ~~2115000~~	0.909	1922535
2	2115000	0.826	1746990
3	2115000	0.751	1588365
4	2115000	0.683	1444545
5	2115000	0.621	1313415
5	10,00,000	0.621	621000

3aStep1 0

P.V. of Inflows ~~7044559~~ 8636850

3aStep2 0

Outflow = 70,00,000 + 10,00000
= 80,00,000

3a 0

NPV = 8636850 - 80,00,000
= 636850

Since NPV is 636850, therefore company should purchase the machine

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ICAI

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Ans 3(b)

(i)

$\frac{\text{Interest Income}}{\text{value of Investment}} \times 100 = 5\%$

$\Rightarrow \frac{(50,00,000 - 12,5000) \times 9\% \times t/12}{50,00,000} = 5\%$

where t is period of investment

$\Rightarrow 438750 \times t/12 = 50,00,000 \times 5\%$

$\Rightarrow 438750 \times t/12 = 250000$

$\Rightarrow t = \frac{250000 \times 12}{438750}$

$t = 6.84$ months

So period of investment = 6.84 months or 0.57 years

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ICAI 15

DO NOT WRITE ANYTHING HERE

(ii) In order to break even, he need to earn 125000.

So,

~~50,00~~

$\dfrac{\text{Interest income } \cancel{\times 100}}{\cancel{\text{value of Investment}}} = 125000$

$\Rightarrow \dfrac{(50,00,000 - 125000)}{\cancel{50,00,000}} \times 9\% \times t/12 = 125000$

$\Rightarrow 438750 \times t/12 = 125000$

$\Rightarrow t = \dfrac{125000 \times 12}{438750}$

$\Rightarrow t = \cancel{3.417}\ 3.42$ months

So 3.42 months or 0.285 year would be required to break even expenditure of Investment

3bStep1 0

3b 0

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Ans 3(c)

Ans 3(c)

As per Eugen Fama there are different types of efficient market, one of them is weak efficient market. Following are various types of test to prove weak form of efficiency.

(a)

weak form of efficiency means market reflects all past price movement & trends, & no one can earn by analysis of past price. Following are ways to test

(i) Run test

in this, movements in stock price is seen with change in price of shares. movement defined by run (R) of security is determined.

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Number of positive charges (i.e. upward movement) & negative charges (i.e. downward movement) is also determined denoted by n1 & n2 respectively.

After that, following are calculated

$$\mu = \frac{2 n_1 n_2}{n_1 + n_2} + 1$$

$$\& \quad \sigma = \sqrt{\frac{(\mu-1)(\mu-2)}{n_1+n_2-1}}$$

where μ is average of run & σ is standard deviation of run.

If R (run) value between interval of following then it is said to be in weak form of efficiency

$(\mu + \sigma \times t)$ & $(\mu - \sigma \times t)$

where t is correction factor depending upon significance level & degree of freedom.

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(ii) Serial correlation test

In this, price of shares is divided in 2 periods, & correlation is calculated to evaluate if there is any relationship in movement

If correlation (r) is near zero, then it is said ~~to that~~ ~~be~~ ~~weak~~ market is in weak form of efficiency.

(iii) Filter test

In this, N% of price is fixed, where shares are purchased after price goes above that N%, & is sold when it goes below another fixed % for the same.

3cStep1 4
3c 4
3 4

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Ans 4(a)

Answer 4(a) (₹ in lakhs)

Calculation of Repatriation Amount

Particulars	(Amt) (₹) (in lakhs)
Transfer Price (USD 4 Million × 84)	3360
(−) Rent	25
(−) Manpower cost (120 × 10 × 275 × 350)	1155
(−) Admin & other cost	50
Amount Before tax	2130
(−) tax @ 20%	426
Amount after tax	1704
Amount in USD	2028,571

4aStep1 4

Total cost of development = ~~4,00,0~~ 40,00,000
− 20,28,571
= 1971429. USD

Profit = 60,00,000 − 1971429 = 4028571 USD

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Since, there will be overall profitability.
therefore project should be undertaken

4aStep2 2

4a 6

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Answer 4(b)

Answer 4(b)

(i) Assumed there is synergy in earnings

No. of shares to be issued by UL Ltd. = 50000 × Exchange ratio

= 50000 × 4/5

= 40000

Total outstanding shares of UL Ltd after merger

= 280000 + 40000

= 320000

~~EA~~ Total earnings after merger = EPS × No. of shares

= 320000 × 5.4

= 1728000

Earnings of UL + Earnings of FL = Earnings of merged entity

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$(280000 \times 5) + x = 1728000$

$\Rightarrow 1400000 + x = 1728000$

$\Rightarrow x = 328000$

Here x is earning of FL Ltd.

Pre merger EPS of FL Ltd

$= \frac{\cancel{Rs}\ 328000}{50000}$

$= 6.56$ per share

4bStep1 3

(ii) ER is exchange ratio

EPS after merger = EPS of AL before merger

$\Rightarrow \frac{1728000}{280000 + \cancel{50000}\ 50000 \times ER} = 5$

$\Rightarrow 1728000 = 1400000 + \cancel{200000ER}\ 250000ER$

$\Rightarrow 328000 = \cancel{200000ER}\ 250000ER$

$\Rightarrow ER = \frac{328000}{\cancel{200000}\ 250000}$

$\Rightarrow ER = \cancel{1.64}\ 1.312$

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So, no of shares to be issued to maintain same EPS

= ~~1.64 × 400~~

= 1.312 × 50000

= 65600

4bStep2 1

No. of shares to be issued 65600 to FC Ltd.

4b 4

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Answer 4(C)

Answer 4(C)

Financial stage	Covering period	Risk perception	Activity to be financed
Seed Money	7-10 years	Extreme	It is financing is done on the basis of idea of business potential of idea with no as such operations being started.
Startup	5-9 years	very high	Here funding is done to fund for development of prototype so that idea is worth going or not can be decided.

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	locking period	Risk	Activity to be financed
Second Stage	3 - 5 years	Sufficiently high	Here financing is done for working capital requirements, when though entity is not making profits
Fourth stage	1 - 3 year[redacted]	low	Here [redacted] raising is done to assist in taking another rounds of funding like IPO, Also known as bridg[redacted] financin[redacted]

4cStep1 4

4c 4

4 14

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Ans 1(a)

Ans 1(a)

~~Price of share using earnings growth model.~~

~~$V_0 = \frac{EPS(1+g)}{ROE - g}$~~

(i) Price of share $= \frac{D_0(1+g)}{K_e - g}$

$= \frac{3.50 \times 1.02}{12.50\% - 2\%}$

1aStep1 1

price = 34

(ii)

Price of share using earnings growth model

$V_0 = \frac{EPS(1+g)}{ROE - g}$

$= \frac{2.75(1.02)}{8\% - 2\%}$

1aStep3 2

$V_0 = 46.75$

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Ans1(a)

Ans1(a)

Since intrinsic value is more than actual price. (46 > 45)
i.e.
Share is undervalued & it is NOT overvalued

One should Buy it.

Price of share using P/E multiple approach.

1aStep2 3

P/E = 1/ROE = 1/8% = 12.5

VO = EPS x P/E
= 2.75 x 12.5
VO = 34.375

1a 6

Since intrinsic value is less than actual price (34.375 < 45)

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i.e.,
Share is overvalued
Investor should sell it.

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Ans 1(b)

Ans 1(b) (MTP)

interest = 300 Lakhs × 8%
= 24 lakhs.

Financial leverage = $\frac{\text{EBIT} \cancel{- \text{interest}}}{\text{EBIT} - \text{interest}}$

$\Rightarrow 1.5 = \frac{\text{EBIT}}{\text{EBIT} - 24 \text{ lakhs}}$

$\Rightarrow$ 1.5 EBIT − 36 lakhs = EBIT

$\Rightarrow$ 0.5 EBIT = 36 lakhs

$\Rightarrow$ EBIT = 72 lakhs.

invested capital
= 100 lakhs + 200 lakhs
+ 300 lakhs
= 600 lakhs.

~~WACC~~.

We = 0.5 Wd = 0.5

WACC = 15 × 0.5 + 8% (1−25%) × 0.5
= 10.5%.

NOPAT = EBIT − tax %
= 72 lakhs − 25% = 54 lakhs.

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Economic value added (EVA)
= NOPAT − WACC × Invested capital
= 54 lakhs − 600 lakhs × 10.5%
= 54 − 63 lakhs
= −9 lakhs

So, EVA is −9 lakhs

1bStep1 4
1b 4

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Ans 5(c)

Ans 5(c)

Following are different risk that would be faced by Mr. PK.

(i) counterparty / credit risk

since ~~there~~ he is importing from China there are chances that they may not honour their obligation. Also, there are chances that PK might not receive proceeds from America

(ii) currency risk

Since Mr PK is involved in international transaction,

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there would foreign currency involved while paying & receiving sales proceeds.

(iii) Political Risk

Since Mr PK is dealing with China & UK, there are chances of risk that their government might put restrictions on borrowings, payment, remittances etc thereby creating political risk.

(iv) Operational Risk

Since Mr PK is involved in manufacturing of items, there are chances that he won't be able to smoothly operate day to day operations relating to manufacturing

1cStep1 3

1c 3

1 13

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Ans 6(a)

Ans 6(a) (in ₹)

(i) Value of contract = 2 lots × 25400 × 50
= 2540,000

Initial margin = 2540000 × 10%
= 254000

6aStep1 2

Maintenance margin = 254000 × 80%
= 203200

Calculation of Balance of Daily margin Account & margin calls.

Date	Opening Balance	gain/loss for day	Balance after settlement	call money	closing Balance
31.12.24	254000	–	–	–	25[illegible]
1.1.25	254000	(25520 − 25400) × 2 × 50 = 12000 gain	266000	–	2[illegible]

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Date	Opening Balance	gain/loss	Balance after settlement	Call money	Closing Balance
02.01.25	266000	(25390 − 25520) × 50 × 2 = 13000 loss	253000	-	253000
03.01.25	253000	(25210 − 25380) × 50 × 2 = 14000 loss	239000	-	239000
04.01.25	239000	(24800 − 25250) × 50 × 2 = 45000 loss	194000	60000	254000
05.01.25	254000	(25100 − 24800) × 50 × 2 = 30000 gain	284000	-	284000

6aStep2 3

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Ans 6(a)

so daily Balances are,

31.12.24	254000
1.1.25	266000
2.1.25	253000
3.1.25	239000
4.1.25	254000
5.1.25	284000

call money on 4.1.25 11 60000

(ii)

If squared off on 5th Jan,

loss would = (25100 − 25400) × 50 × 2

= 30000.

There would be loss of 30000.

6aStep3 1

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(iii) If Mr. PS had taken short position that gain would be

$= (25700 - 25400) \times 50 \times 2$

$= 30000$ ₹ gain

6aStep4 1

6a 7

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Ans 6 (b)

Ans 6(b)

(i)

Amount received by cap option = 5000000 $ × (10% − 8%)

= 50,00,000 $ × 2%

= 100000 $

Option premium = 50,00,000 $ × [redacted] %

= 37500 $

So, net savings = payoff of cap option − option premium

= 100000 $ − 37500 $

6bStep1 3

net savings = 62500 $

(ii)

Premium on put option = 50,00,000 × 0.85%

= 42500 $

Premium on call option = 50,00,000 $ × 0.75%

= 37500 $

payoff in call option = 100000 $

Net savings = 100000 $ − 42500 $ − 37500 $

net savings = 20000 $

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(iii)
Payoff in put option = 50,00,000 $ × (5% − 4%)
= 50000 $

Payoff on call option = NIL

Premium on call option = 37500 $
Premium on put option = 42500 $

Net savings = 50000 $ − 42500 $
(loss) − 37500 $
= 30000 $

So, there would be loss of 30000 $

(iv)
Assuming on selling of floor option value of premium received is 0.85% of face value.
Premium paid on call = 37500 $
Premium received on put = 42500 $

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Code: FN2AF897066
Subject : 02 Advanced Financial Management
Total Marks: 70
Marks Obtained : 59

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0 4 MAY 2025

Addl. Book No. 04

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

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Ans 6(b)

Payoff call option = 5000000 $ (11% - 8%)
= 150000 $

Payoff in put option = NIL

So net savings = 150000 $ + 42500 $
− 37500 $
= 155000 $

6bStep2 4

6b 7

6 14

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Code: FN2AF897066 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 59

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Code: FN2AF897066 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 59

3

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Code: FN2AF897066 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 59

4

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The Institute of Chartered Accountants of India

Code: FN2AF897066 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 59

Result Overview

Awarded Marks: 59 Max Marks:70

NA Not Attempted O Optional M Marked

Q1_Compulsory (Score: 13/14)

Question No	Awarded Marks	Maximum Marks	Status
1	13	14	M
1a	6	6	M
1b	4	4	M
1c	3	4	M

Q2_Q6 (Score: 46/56)

Question No	Awarded Marks	Maximum Marks	Status
2	14	14	M
2a	6	6	M
2b	4	4	M
2c	4	4	M
3	4	14	M
3a	0	6	M
3b	0	4	M
3c	4	4	M
4	14	14	M
4a	6	6	M
4b	4	4	M
4c	4	4	M
5	0	14	O
5a	0	7	O
5b	0	7	O
6	14	14	M
6a	7	7	M