

Mock Test Paper - Series II December, 2025

Date of Paper: 06 December, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – I

PAPER – 2: ADVANCED FINANCIAL MANAGEMENT

Time Allowed – 3 Hours

Maximum Marks – 100

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.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario I

The data given below relates to a convertible bond:

Face value	₹ 450
Coupon rate	15%
No. of shares per bond	25
Market price of share	₹ 20
Straight value of bond	₹ 400
Market price of convertible bond	₹ 550

From the information given above, choose the correct answer to the following questions:

1. The stock value of bond would be
 - (a) ₹ 500
 - (b) ₹ 400
 - (c) ₹ 550
 - (d) ₹ 450
2. The percentage of downside risk based on market price of convertible bond is.....
 - (a) 10%
 - (b) 27.27%

- (c) 18.18%
 - (d) 11.11%
3. The conversion premium is
- (a) 10%
 - (b) 27.27%
 - (c) 18.18%
 - (d) 11.11%
4. The conversion parity price of the stock is
- (a) ₹ 25
 - (b) ₹ 20
 - (c) ₹ 22
 - (d) ₹ 24
- (4 x 2 = 8 Marks)**

Case Scenario II

Grow More Ltd. an NBFC is in the need of funds and hence it sold its receivables to MAC Financial Corporation (MFC) for ₹ 100 million. MFC created a trust for this purpose called General Investment Trust (GIT) through which it issued securities carrying a different level of risk and return to the investors. Further, this structure also permits the GIT to reinvest surplus funds for short term as per their requirement.

MFC also appointed a third party, Safeguard Pvt. Ltd. (SPL) to collect the payment due from obligor(s) and passes it to GIT. It will also follow up with defaulting obligor and if required initiate appropriate legal action against them.

From the information given above, choose the correct answer to the following questions:

5. The securitized instrument issued for ₹ 100 million by the GIT falls under category of
- (a) Pass Through certificate (PTCs)
 - (b) Pay Through Security (PTS)
 - (c) Stripped Security
 - (d) Debt Fund.
6. In the above scenario, the Originator is.....
- (a) Grow More Ltd.

- (b) MAC Financial Corporation (MFC)
 - (c) General Investment Trust (GIT)
 - (d) Safeguard Pvt. Ltd.
7. In the above scenario, the General Investment Trust (GIT) is a/an.....
- (a) Obligor
 - (b) Originator
 - (c) Special Purpose Vehicle (SPV)
 - (d) Receiving and Paying Agent (RPA)
8. In the above scenario, the Safeguard Pvt. Ltd. (SPL) is a/an.....
- (a) Obligor
 - (b) Originator
 - (c) Special Purpose Vehicle (SPV)
 - (d) Receiving and Paying Agent (RPA)
9. Which of the following statement holds true?
- (a) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to rise.
 - (b) When Yield to Maturity in market rises, prices of Principle Only (PO) Securities tend to fall.
 - (c) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities tend to fall.
 - (d) When Yield to Maturity in market falls, prices of Principle Only (PO) Securities remain the same.
- (5 x 2 = 10 Marks)**

Case Scenario III

Following information is related to actions taken in different situation of financial options:

Situation	Action	Exercise Price	Premium	Spot Price
I	Exercised	140	20	160
II	Exercised	200	15	175
III	Lapsed	300	25	400

From the information given above, choose the correct answer to the following questions:

10. In Situation III, the investor's position and the amount of profit / loss is.....
- (a) Put option, ₹ (25)
 - (b) Call option, ₹ 75
 - (c) Short position, ₹ 100
 - (d) Long position, ₹ (100)
11. In Situation I, the investor's position and the amount of profit or loss is.....
- (a) Put option and ₹ 20
 - (b) Call option and ₹ 0
 - (c) Put option and ₹ 0
 - (d) Call option and ₹ 20
12. In Situation II, the investor's position and the amount of profit / loss is.....
- (a) Put option and ₹ 10
 - (b) Call option and ₹ 10
 - (c) Put option and ₹ 25
 - (d) Call option and ₹ 25
- (3 x 2 = 6 Marks)**

Case Scenario IV

A company is considering hedging its foreign exchange risk. It has made a purchase on 1st July, 2024 for which it has to make a payment of US\$ 60,000 on December 31, 2024. The present exchange rate is 1 US \$ = ₹ 83. It can purchase forward 1 \$ at ₹ 82. The company will have to make an upfront premium @ 2% of the forward amount purchased. The cost of funds to the company is 12% per annum.

The company hedges its foreign exchange risk using above-mentioned forward contract.

From the information given above, choose the correct answer to the following questions:

13. If exchange rate on 31st December, 2024 happens to be ₹ 86 per US \$ then due to forward position taken the company will make.....
- (a) a loss of ₹ 1,04,304
 - (b) a profit of ₹ 1,35,696
 - (c) a loss of ₹ 2,24,304

- (d) a profit of ₹ 2,55,696
14. If exchange rate on 31st December, 2024 happens to be ₹ 80 per US \$ then due to forward position taken the company will make.....
- (a) a loss of ₹ 1,04,304
 (b) a profit of ₹ 1,35,696
 (c) a loss of ₹ 2,24,304
 (d) a profit of ₹ 2,55,696
15. If exchange rate on 31st December, 2024 happens to be ₹ 88 per US \$ then due to forward position taken the company will make.....
- (a) a loss of ₹ 1,04,304
 (b) a profit of ₹ 1,35,696
 (c) a loss of ₹ 2,24,304
 (d) a profit of ₹ 2,55,696 (3 x 2 = 6 Marks)

PART – II DESCRIPTIVE QUESTIONS

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

1. (a) On 20.10.2024, the balance in NOSTRO account with XYZ Bank in London was GBP 80000 and the balance in overbought was GBP 50000. During the day the following transactions have taken place.

Events	Amount (GBP)
DD Purchased	25,000
Purchased a bill on London	75,000
Sold forward TT	50,000
Forward purchased contract cancelled	25,000
Remitted by TT	42,500
Draft in London cancelled	20,000

What steps would you take, if you are required to maintain a credit balance of GBP 10,000 in the NOSTRO account and keep as overbought position on GBP 32,500? **(6 Marks)**

(b) Bank A enter into a Repo for 14 days with Bank B in 10% Government of India Bonds 2028 @ 5.65% for ₹ 8 crore. Assuming that clean price (the price that does not have accrued interest) be ₹ 99.42 and initial Margin be 2% and days of accrued interest be 262 days. You are required to determine:

(i) Dirty Price (Round off calculations upto two decimal points.)

(ii) Repayment at maturity. (Consider 360 days in a year and round off calculations to whole numbers.) **(4 Marks)**

(c) Explain the concept of Unicorn. **(4 Marks)**

2. (a) The closing value of a Stock Market Index for the month of October, 2007 is given below:

Date Closing	Index Value
1.10.07	2800
3.10.07	2780
4.10.07	2795
5.10.07	2830
8.10.07	2760
9.10.07	2790
10.10.07	2880
11.10.07	2960
12.10.07	2990
15.10.07	3200
16.10.07	3300
17.10.07	3450
19.10.07	3360
22.10.07	3290
23.10.07	3360
24.10.07	3340
25.10.07	3290
29.10.07	3240
30.10.07	3140
31.10.07	3260

You are required to test the weak form of efficient market hypothesis by applying the run test at 5% and 10% level of significance.

Following values can be used:

Value of t at 5% is 2.101 at 18 degrees of freedom.

Value of t at 10% is 1.734 at 18 degrees of freedom. **(10 Marks)**

(b) Explain the benefits of Securitization from the angle of originator. **(4 Marks)**

3. (a) XY Ltd., is interested in expanding its operation and planning to install a unit at US. For the proposed project, it requires a fund of \$ 15 million (net of issue expenses/floatation cost). The estimated floatation cost is 3%. To finance the project it proposes to issue GDRs.

You as a financial consultant is required to compute the number of GDRs, to be issued and cost of the GDR with the help of following additional information.

(i) Expected market price of share at the time of issue of GDR is ₹ 350 (Face Value ₹ 100).

(ii) 3 shares shall underly each GDR and shall be priced at 6% discount to market price.

(iii) Expected Exchange Rate ₹ 84/\$.

(iv) Dividend expected to be paid is 10% with growth rate of 8%. **(6 Marks)**

- (b) ABC Ltd. has been maintaining a growth rate of 10 percent in dividends. The company has paid dividend @ ₹ 3 per share. The rate of return on market portfolio is 12 percent and the risk free rate of return in the market has been observed as 8 percent. The Beta co-efficient of company's share is 1.5.

You are required to calculate the expected rate of return on company's shares as per CAPM model and equilibrium price per share by dividend growth model.

(4 Marks)

- (c) **Either**

Explain why applying the three most common globally accepted business valuation methods is challenging when valuing a startup. **(4 Marks)**

Or

Explain some similarities between Tokenization and Securitization. **(4 Marks)**

4. (a) Cyber Company is considering two mutually exclusive projects. Investment outlay of both the projects is ₹ 5,00,000 and each is expected to have a life of 5 years. Under three possible situations their annual cash flows and probabilities are as under:

Situation	Probabilities	Cash Flow (₹)	
		Project A	Project B
Good	0.3	6,00,000	5,00,000
Normal	0.4	4,00,000	4,00,000
Worse	0.3	2,00,000	3,00,000

The cost of capital is 7 per cent, which project should be accepted? Explain with workings. **(6 Marks)**

- (b) An investor purchased 300 units of a Mutual Fund at ₹ 12.25 per unit on 31st December, 2019. As on 31st December, 2020 he has received ₹ 1.25 as dividend and ₹ 1.00 as capital gains distribution per unit.

Required:

- (i) The return on the investment if the NAV as on 31st December, 2020 is ₹ 13.00.
- (ii) The return on the investment as on 31st December, 2020 if all dividends and capital gains distributions are reinvested into additional units of the fund at ₹ 12.50 per unit. **(4 Marks)**

- (c) Explain the benefits of International Financial Centre. **(4 Marks)**

5. (a) The total market value of the equity share of O.R.E. Company is ₹ 60,00,000 and the total value of the debt is ₹ 40,00,000. The treasurer estimate that the beta of the stock is currently 1.5 and that the expected risk premium on the market is 10 per cent. The treasury bill rate is 8 per cent.

Required:

- (i) What is the beta of the Company's existing portfolio of assets?
- (ii) Estimate the discount rate for an expansion of the company's present business if only equity is used to finance the expansion. **(8 Marks)**

- (b) XY Ltd. is planning to expand its operations in view of growing demand for its products. For this purpose, it is considering to borrow an amount of ₹ 100 crores for a period of 3 months in the coming 6 months' time from now. The current rate

of interest is 8% per annum but due to inflation it may go up in 6 months' time. The company wants to hedge itself against the likely increase in interest rate.

The company's Bankers quoted an FRA (Forward Rate Agreement) at 8.20% per annum.

You are required to calculate due to FRA:

- (i) The actual interest rate if the Banker pays to XY Ltd. an amount of ₹ 9,78,952.52
- (ii) The actual interest rate if XY Ltd. will pay to the Banker a sum of ₹ 9,80,872.98

(6 Marks)

6. (a) Consider a portfolio consisting of a ₹ 200,00,000 investment in share XYZ and a ₹ 200,00,000 investment in share ABC. The daily standard deviation of both shares is 1% and that the coefficient of correlation between them is 0.3.

You are required to determine the 10-day 99% value at risk for the portfolio if 1% of a normal distribution lies more than 2.33 standard deviations below the mean.

(4 Marks)

- (b) During the audit of the Weak Bank (W), RBI has suggested that the Bank should either merge with another bank or may close down. Strong Bank (S) has submitted a proposal of merger of Weak Bank with itself. The relevant information and Balance Sheets of both the companies are as under:

Particulars	Weak Bank (W)	Strong Bank (S)	Assigned Weights (%)
Gross NPA (%)	40	5	30
Capital Adequacy Ratio (CAR)	5	16	28
Total Capital/ Risk Weight Asset			
Market price per Share (MPS)	12	96	32
Book value			10
Trading on Stock Exchange	Irregular	Frequent	

Balance Sheet

(₹ in Lakhs)

Particulars	Weak Bank (W)	Strong Bank (S)
Paid up Share Capital (₹ 10 per share)	150	500
Reserves & Surplus	80	5,500

Deposits	4,000	44,000
Other Liabilities	<u>890</u>	<u>2,500</u>
Total Liabilities	<u>5,120</u>	<u>52,500</u>
Cash in Hand & with RBI	400	2,500
Balance with Other Banks	-	2,000
Investments	1,100	19,000
Advances	3,500	27,000
Other Assets	70	2,000
Preliminary Expenses	<u>50</u>	<u>-</u>
Total Assets	<u>5,120</u>	<u>52,500</u>

You are required to

- (a) Calculate Swap ratio based on the above weights:
- (b) Ascertain the number of Shares to be issued to Weak Bank;
- (c) Prepare Balance Sheet after merger; and
- (d) Calculate CAR and Gross NPA of Strong Bank after merger. **(10 Marks)**