CA - FINAL
ADVANCED FINANCIAL MAMAGEMENT
CASE SCENARIOS

Case Scenario 1 - (ICAI)

X and Y are two friends. Since Y has earned a lot of profit from trading in financial derivative market, X is also considering speculating on Gamma Corporation's shares which is currently trading at Rs 700 per share through taking positions in options in stocks of same company. Accordingly, X took following contract positions in the options on Gama Corporation's stock:

(i) Purchasing one contract of 2-month call option with a premium of Rs.35 and an exercise price of Rs.750.

(ii) Purchasing one contract of 2-month put option with a premium of Rs.25 and an exercise price of Rs.600. After some time, trading in Option Market and understanding the nitty-gritties of same, X being CEO in an organization advised his team to implement the concept of Financial Options in the Capital Budgeting decisions called 'Real Option'. Based on the above information answer the following questions:

1. Assuming that the contract size of each option contract is 100 and the price of Gama Corporation's share after two months falls to 550, the net pay-off of X will be.........

(a) Rs 1,000 loss (b) Rs 1,000 profit (c) Rs 3,000 profit (d) Rs 3,000 loss

2.The per share price of Gama Corporation's stock after 2m at which X shall be at Break Even is

(a) Rs 540 (b) Rs 600 (c) Rs 625 (d) Rs 785

3. Which of the following statement is false regarding Real OptionsRs

(a) Real Options methodology is an approach to capital budgeting that relies on Option Pricing theory to evaluate projects.

(b) Real options approach is intended to supplement, and not replace, capital budgeting analyses based on standard Discounted Cash Flow (DCF) methodologies.

(c) Real options are different from financial options as their periods start from the end of 1st year and are higher than financial options.

(d) Real options are normally traded in the market and are priced.

Case Scenario 2- (ICAI)

The data given below relates to a convertible bond of X Ltd.:

Face Value	Rs.450
Coupon rate	15%
No of Shares per Bond	25
Market Price of Share	Rs.20
Straight Value of Bond	Rs.400
Market Price of Convertible Bond	Rs.550

Based on the above information answer 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) Rs. 25 (b) Rs. 20 (c) Rs. 22 (d) Rs. 24

Case Scenario 3- (ICAI)

Mr. A is interested in investing Rs. 1,00,000 for which he is considering following three alternatives:
(i) Invest Rs. 1,00,000 in Mutual Fund X (MFX)
(ii) Invest Rs. 1,00,000 in Mutual Fund Y (MFY)
(iii) Portfolio Invest Rs. 60,000 in Mutual Fund X (MFX) and Rs. 40,000 in Mutual Fund Y (MFY)
Average annual return earned by MFX and MFY is 12% and 11% respectively. Risk free rate of return is 8% and market rate of return is 10%.
Covariance of returns of MFX, MFY and market portfolio Mix are as follow:

	MFX	MFY	Market Portfolio
MFX	4.400	4.300	3.370
MFY	4.300	4.200	2.800
Market Portfolio	3.370	2.800	4.200

Based on the above information answer the following questions:

1. Standard Deviation of MFX is………………
(a) 2.0736 (b) 2.0976 (c) 1.8358 (d) 2.0494

2. Portfolio return would be……………
(a) 11.00% (b) 12% (c) 11.50% (d)11.60%

3. Based on Standard Deviation, the optimum investment for Mr. A would be………
(a) Portfolio (b) All investment in MFX
(c) All investment in MFY (d) Both MFY and mix are indifferent
Answer based on coefficient of variation

Case Scenario 4 - (ICAI)

P Ltd. is studying the possible acquisition of Q Ltd. by way of merger. The following data are available:

Firm	After tax Earnings	No of Eq Shares	MPS	BV per Share
P	Rs.10,00,000	2,00,000	Rs.75	Rs.210
Q	Rs.3,00,000	50,000	Rs.60	Rs.105

The merger shall be gone through by exchange of equity shares and the exchange ratio is set according to different weights assigned to different basis as mentioned below :-

EPS 50%
Market Price 25%
Book Value 25%

1. The swap ratio based on assigned weights shall be...........
(a) 0.825 (b) 0.925 (c) 0.952 (d) 0.752

2. Based on swap ratio as per assigned weights the total number of shares issued by P Ltd to Q Ltd. shall be
(a) 46250 (b) 41250 (c) 47600 (d) 37600

3. Post merger the EPS of the P Ltd. shall be..................
(a) 5.39 (b) 5.25 (c) 5.28 (d) 5.47

4. In case Q Ltd. wants to be sure that its EPS is not diminished by the merger, the relevant exchange ratio to achieve the same objective should be...........
(a) 0.83 (b) 1.20 (c) 1.30 (d) 1.10

Case Scenario 5- (ICAI)(MTP Mar'24)

Mr. Y has invested in the three mutual funds (MF) as per the following details:

Particulars	MF 'X'	MF 'Y'	MF 'Z'
Amount of Investment (Rs)	4,00,000	8,00,000	4,00,000
Net Assets Value (NAV) at the time of purchase (Rs)	10.30	10.10	10
Dividend Received up to 31.03.2023 (Rs)	9,000	0	6,000
NAV as on 31.03.2023 (Rs)	10.35	10	10.30
Effective Yield per annum as on 31.03.2023 (percent)	9.66	-11.66	24.15

Assume 1 Year = 365 days
On the basis of above information, choose the most appropriate answer to the following questions:

1. Total NAV of MF 'Y' as on 31.03.2023 would be approximately....................
(a) Rs. 401941.73 (b) Rs. 412000.00 (c) Rs. 792079.20 (d) Rs. 82500.00

2. Total Yield of MF 'X' in terms of Rs. would be approximately.....................
(a) Rs. 10941.73 (b) Rs. 7,920.80 (c) Rs. 18,000.00 (d) Rs. 12450.45

3. Number of days for which MF 'X' is held would be approximately................
(a) 31 Days (b) 68 Days (c) 103 Days (d) 85 Days

4. Number of days for which MF 'Y' is held would be............
(a) 31 Days (b) 68 Days (c) 103 Days (d) 85 Days

Case Scenario 6- (ICAI) (MTP Mar'24)

ABC Ltd. is planning to expand its business and therefore raising fund by issuing a convertible bond of Rs. 10 crore. An investor "Mr. X" is interested to invest in the bond of ABC Ltd. Mr. X has following
data related to the convertible bond. The data given below relates to a convertible bond:

Face value	Rs 250
Coupon rate	12%
No. of shares per bond	20
Market price of share	Rs 12
Straight value of bond	Rs 235
Market price of convertible bond	Rs 265
Maturity	5 Years

You, being an expert of the matter, are required to answer his questions. Select the most appropriate alternative:

1. The percentage of downside risk of the bond is approximately.
(a) 10.42% (b) 6.38% (c) 2.13% (d) 12.77%

2. The conversion premium in percentage term of the bond is................
(a) 12.77% (b) 10.42% (c) 2.18% (d) 13.45%

3. The conversion parity price of the stock is...................
(a) Rs. 11.75 (b) Rs. 12.00 (c) Rs. 13.25 (d) Rs. 12.50

4. If he wants a yield of 15% the maximum price he should be ready to pay for is…………
(a) 217.41 (b) 224.81 (c) 240.00 (d) 232.32

Case Scenario 7- (ICAI) (MTP Mar'24)

Suppose you are a financial consultant and following 3 clients have approached to you seeking advise on the investment to be made in securities. All these clients have different background and risk appetite as well as perception to the market.

- Client A wants to invest in Fixed income avenues and therefore he is looking at the credit rating of the securities as well as financial ratios such as interest coverage, earning power etc and the general prospect of the industry.
- Client B wants to earn a fixed income over a period of time by holding the security till its maturity. Yield to maturity
- Client C wants to earn more by taking more risk. Therefore, he is more interested to invest in stocks. He believes that Price reflects all information found in the record of past prices and volumes.

On the basis of above information, choose the most appropriate answer to the MCQs.

1. The main factor to be considered in selecting fixed income avenue for client A shall be……….
(a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity

2. The main factor that have to be evaluated in the selection of Bond for Client B shall be……….
(a) Yield to maturity (b) Risk of Default (c) Tax Shield (d) Liquidity

3. If Weak form efficiency is prevailing in the market then which approach is best for selection of Equity Shares?
(a) Technical Analysis (b) Fundamental Analysis
(c) Random selection Analysis (d) None of these

Case Scenario 8- (ICAI)(MTP Mar'24)

AES Ltd. wants to acquire DNF Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of DNF Ltd.). Following information is provided:

	AES Ltd.	DNF Ltd.
Profit after tax	Rs 36,00,000	Rs 7,20,000
Equity shares outstanding (Nos.)	12,00,000	3,60,000

PE Ratio	10 times	7 times
Market price per share	Rs 30	Rs 14

On the basis of above information, choose the most appropriate answer to the following questions:

1. The number of equity shares to be issued by AES Ltd. for acquisition of DNF Ltd. would be......
(a) 1,68,000 (b) 1,80,000 (c) 2,40,000 (d) 3,00,000

2. The EPS of AES Ltd. after the acquisition would be............
(a) Rs. 2 (b) Rs. 3 (c) Rs. 3.13 (d) Rs. 4.00

3. The equivalent earnings per share of DNF Ltd. would be............
(a) Rs. 1 (b) Rs. 1.50 (c) Rs. 1.57 (d) Rs. 2.00

4. If AES Ltd. PE multiple remains unchanged then its expected market price per share after the acquisition would be..................
(a) Rs. 14.00 (b) Rs. 30.00 (c) Rs. 31.30 (d) Rs. 40.00

Case Scenario 9- (ICAI)(MTP Apr'24)

During one business meeting at XYZ Ltd., one of the member pointed out that while evaluating the performance of any company one should not only see its Operating Income but should also analyse its Capital structure as well. Weighted Average Cost of Capital changes on the basis of capital structure keeping all other factors unchanged. He presented data relating to 3 companies Alpha Ltd., Beta Ltd. and Gama Ltd. whose operating Income are equal, but their capital structure is different. The following information relating to these 3 companies is as follows: (in Rs. 000)

	Alpha Ltd.	Beta Ltd.	Gama Ltd.
Total invested capital	20,00,000	20,00,000	20,00,000
Debt/Assets ratio	0.8	0.5	0.2
Shares outstanding	61,000	83,000	1,00,000
Pre tax Cost of Debt	16%	13%	15%
Cost of Equity	26%	22%	20%
Operating Income (EBIT)	5,00,000	5,00,000	5,00,000

The Tax rate is uniform 35% in all cases. The industry PE ratio is 11X.
Based on above case scenario, choose the most appropriate answer of the following:

1. The weighted average cost of capital of Alpha Ltd. shall approximately be.................
(a) 13.520% (b) 15.225% (c) 17.950% (d) 18.000%

2. The Economic Valued Added (EVA) for Beta Ltd. is.................
(a) Rs. 54600 Thousand (b) Rs. 20500 Thousand
(c) (-) Rs. 34000 Thousand (d) Rs. 21500 Thousand

3. The price per share of Gama Ltd. shall be.....................
(a) Rs. 28.60 (b) Rs. 31.90 (c) Rs. 31.46 (d) Rs. 29.45

4. The estimated market capitalisation for Alpha Ltd. is.........................

(a) Rs. 26,47,700 Thousand (b) Rs. 31,46,000 Thousand
(c) Rs. 17,44,600 Thousand (d) Rs. 23,73,800 Thousand

5. Earning per share of Beta Ltd. is................
(a) Rs. 2.60 (b) Rs. 2.90 (c) Rs. 2.86 (d) Rs. 2.15

Case Scenario 10- (ICAI)(MTP Apr'24)

On 1 October 2023 Mr. X an exporter enters into a forward contract with a BNP Bank to sell US$ 1,00,000 on 31 December 2023 at Rs. 85.40/$. However, due to the request of the importer, Mr. X received the amount on 28 November 2023. Mr. X requested the bank the take delivery of the remittance on 30 November 2023 i.e., before due date. The inter-banking rates on 28 November 2023 was as follows:

Spot	Rs. 85.22/85.27
One Month Premium	10/15

Note: (1) Consider 365 days in a year.
(2) Prevailing Prime Lending Rate is 12%
Based on above case scenario, choose the most appropriate answer of the following:

1. The bank may accept the request of customer of delivery before due date of forward contract provided the customer is ready to bear the loss if any consisting of............
(a) Swap Difference
(b) Interest on Outlay of Fund
(c) Swap Difference Plus Interest on Outlay of Fund
(d)Fixed Charges Plus Swap Difference and Interest on Outlay of Fund

2. In case of early delivery bank shall charge interest on outlay of fund at a rate not less than.......
(a) 8% (b) 10% (c) 12% (d) 18%

3. Swap Difference for US$ 1,00,000 is.....................
(a) Rs. 5,000 (b) Rs. 20,000 (c) Rs. 18,000 (d) Rs. 8,000

4. Interest on outlay of funds shall be approximately.......................
(a) Rs. 92 payable by X (b) Rs. 183 payable by X
(c) Rs. 183 payable by Bank (d) Rs. 122 payable by Bank

5. Net inflow to Mr. X is approximately...................
(a) Rs. 85,42,183 (b) Rs. 85,20,000 (c) Rs. 85,19,817 (d) Rs. 85,19,817

Case Scenario 11- (ICAI)(MTP Apr'24)

A US parent company has subsidiaries in France, Germany, UK and Italy. The amounts due to and from the affiliates is converted into a common currency viz. US dollar and entered in the following matrix.

Inter Subsidiary Payments Matrix **(US $ Thousands)**

		Paying affiliate				
		France	Germany	UK	Italy	Total
Receiving affiliat	France	---	80	120	200	400
	Germany	120	---	80	160	360
	UK	160	120	---	140	420

	Italy	200	60	120	---	380
	Total	480	260	320	500	1560

The treasurer of US Parent company is suggesting that by applying Multilateral Netting system the company can save a lot of transfer/ exchange costs. The company's Board agreed with Treasurer's proposal.
From the above case scenario, choose the most appropriate answer of following MCQs

1. Before applying Multilateral Netting it is necessary to apply……….
(a) Unilateral Netting (b) Bilateral Netting
(c) Multilateral Netting (d) Interest Rate Swapping

2. Through Multinational Netting these transfers will be reduced to…………….
(a) $ 50,000 (b) $ 100,000 (c) $ 150,000 (d) $ 200,000

3. The Net Payment/ Net Receipts for France after netting off shall be...
(a) Net Receipt $ 40,000 (b) Net Payment $ 80,000
(c) Net Payment $ 40,000 (d) Net Receipt $ 80,000

4. The Net Payment/ Net Receipts for Italy after netting off shall be...........
(a) Net Receipt $ 60,000 (b) Net Payment $ 120,000
(c) Net Payment $ 120,000 (d) Net Receipt $ 120,000

5. Suppose if the transfer charges are 0.01% of the amount transferred then by applying multilateral netting techniques there will be reduction in overall cost of transfer by……………
(a) US $ 136 (b) US $ 106 (c) US $ 1,360 (d) US $ 1,560

Case Scenario 12- (ICAI)

XYZ Ltd. needs funds for a short tenure. Some functional level manager suggested about the bank credit/ overdraft option. On conforming from Finance Department, it was found that company exhausted its credit limits due to meeting recent contingency fund requirements. Then CA X, CFO suggested the idea of floating Commercial papers by XYZ Ltd.
Accordingly, XYZ Ltd. is planning to issue Commercial Paper (CP), the details of which is given below:

Issue Price of CP	₹97,550
Face Value	₹1,00,000
Maturity Period	3 Months
Issue Expense	
Brokerage	0.15% for 3 months
Rating charges	0.50% p.a.
Stamp Duty	0.175% for 3 months

Based on above case scenario answer the following questions:

1. The Bond Equivalent yield of the same Commercial Paper shall be approximately……..
(a) 2.51% (b) 10.05% (c) 7.53% (d) 11.05%

2. The Effective Interest Rate per annum of same CP shall approximately be…………
(a) 10.44% (b) 10.05% (c) 2.51% (d) 11.05%

3. Based on effective interest rate the total annual cost of funds to the company shall approximately be

(a) 11.27% (b) 11.85% (c) 12.24% (d) 10.88%

4. Which of the following instruments cannot be used by a bank to meet its short- term funding requirements?
(a) Call/Notice Money (b) Commercial Paper
(c) Certificate of Deposit (d) Repurchase Agreement (Repo)

5. The period of Commercial Paper ranges from................
(a) 14 days to 364 days (b) 14 days to 364 days
(c) 7days to 1 year (d) 1 year to 3 years

Case Scenario 13- (RTP May'24)

Grow More Ltd. an NBFC is in the need of funds and hence it sold its receivables to MAC Financial Corporation (MFC) for Rs 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.
Based on above scenario, answer the following questions:

1. The securitized instrument issued for Rs 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.

2. 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.

3. 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)

4. 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)

5. 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.

Case Scenario 14- (RTP May'24)

You are a financial analyst at a prominent investment firm and have been tasked with empirically verifying the weak form of Efficient Market Hypothesis (EMH) Theory for the XYZ Stock Index, a collection of diverse stocks.

You decided to conduct three different tests to assess whether the stock market follows the principles of the weak form of EMH.

Test 1

For the past five years, you collected daily price changes of the stocks in the XYZ Stock Index. You calculated correlation coefficients for different lag periods and analyzed whether past price changes exhibit any significant correlation with future price changes. You considered price changes to be serially independent. The results indicated that most auto correlation coefficients are close to zero and statistically insignificant, suggesting those past price changes do not predict future price changes.

Test 2

You further investigated the randomness of price changes in the XYZ Stock Index. Analyzing the sequence of daily price changes, you count the number of runs where price changes are consistently positive or negative. Upon comparing the observed number of runs with the expected number based on randomness, you find that they align closely, supporting the idea that price changes follow a random pattern.

Test 3

To examine the efficacy of trading strategies based on historical price trends, you implemented a simple trading rule for the XYZ Stock Index. The rule involves buying when the price crosses a moving average of 5% threshold and selling when it crosses another 7% threshold. Over a period of testing, you computed the returns generated by the trading strategy. The results revealed that the returns are not consistently better than random chance, implying that past price trends do not reliably predict future price movements.

Conclusion:

After conducting the three tests the evidence supports the weak form of Efficient Market Theory for the XYZ Stock Index you concluded that past price trends do not reliably predict future price movements.

Based on the above information answer the following questions:

1. Test 1 is …………………

(a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test

2. Test 2 is ………………….

(a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test

3. Test 3 is ………………

(a) Serial Correlation test (b) Filter Rules test (c) Run test (d) Variance Ratio test.

4. The Filter Rule Test should not be applied for buy and hold strategy if…………….

(a) the behavior of stock price changes is predictable.

(b) the behavior of stock price changes is dependent on past trends.

(c) the behavior of stock price changes is correlated.

(d) the behavior of stock price changes is random.

5. Results of your studies support the……………

(a) Semi-strong EMH Theory (b) Strong EMH Theory

(c) Random Walk Theory (d) Markowitz Theory

Case Scenario 15- (MTP Sep'24)

Bank A is in need of fund for a period of 14 days. To meet this financial need on 20th September 2023 Bank A enters into an agreement with Bank B under which it will sell 10% Government of India Bonds issued on 1st January 2023 @ 5.65% for Rs 8 crore (Face value is Rs 10,000 per Bond).

The clean price of same Bond is Rs 9,942 and the Initial Margin be 2% and the maturity date of Bond is 31st December 2028. Consider 360 days in a year and interest is payable annually.
Based on above Case Scenario, answer the following questions:
Based on above Case Scenario, answer the following questions:
1. The arrangement entered between Bank A and Bank B will be called ……….
(a) Call Money Arrangement (b) Commercial Bill Arrangement
(c) Commercial Paper (d) Repurchase Option

2. Dirty Price of the Bond will approximately be………………………
(a) Rs 10,353 (b) Rs 10,670 (c) Rs 10,499 (d) Rs 10,816

3. The start proceeds of the transaction shall be approximately ………………
(a) Rs 8,38,36,804 (b) Rs 8,36,52,800 (c) Rs 8,58,36,804 (d) Rs 8,48,52,585

4. The second leg of the transaction shall be approximately……………….
(a) Rs 8,38,36,604 (b) Rs 8,36,53,000 (c) Rs 8,58,36,804 (d) Rs 8,48,52,585

5. The amount of Accrued Interest per Bond shall be approximately …………..
(a) Rs 728 (b) Rs 720 (c) Rs 734 (d) Rs 714

Case Scenario 16- (RTP Nov'24)

Two friend Mr. A and Mr. N were discussing about the risks of market. While Mr. A is sort of risk averse, Mr. N is an aggressive investor and believes in taking risk.
Mr. N said we cannot diversify the market risk at all, and he quoted the Modern Portfolio Approach. Both friends analyze the market data for the few months and came out with expected returns on two stocks for a particular market.

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

Based on above scenario, answer the following questions:
1. The Beta of Defensive stock is…………
(a) 2 (b) 0.5 (c) 4 (d) 1

2. If the market return is equally likely to be 7% or 25% then expected return of Aggressive stock shall be……..
(a) 18% (b) 13.50% (c) 22% (d) 11%

3. The Alpha of the Defensive stocks is……………….
(a) -10% (b) 22% (c) 5.50% (d) 12%

4. The Modern Portfolio Theory was propounded by …………………
(a) William Sharpe (b) Black Scholes (c) Stephen Ross (d) Harry Markowitz

5. As per Capital Market Line (CML)Theory the Portfolios lying on the CML over the market portfolio are called
(a) Lending Portfolios (b) Borrowing Portfolios (c) Diversified Portfolios (d) Risk- Free Portfolios

Case Scenario 17- (RTP Nov'24)

Mr. X on 1.7.2021, during the initial offer of some Mutual Fund invested in 10,000 units having face value of Rs 10 for each unit. On 31.3.2022, the dividend paid by the M.F. was 10% and Mr. X found that his annualized yield was 153.33%. On 31.12.2023, 20% dividend was given. On 31.3.2024, Mr. X redeemed all his balance of 11,296.11 units when his annualized yield was 73.52%.

1. NAV per unit of the Fund as on 31.03.2022 shall be approximately………………

(a) Rs 19.50 (b) Rs 20.50 (c) Rs 21.50 (d) Rs 22.50

2. Total number of units as on 31.03.2022 shall be approximately…………

(a) 10487.80 units (b) 12585.65 units (c) 9465.35 units (d) 11575.40 units

3. Total Dividend received by Mr. X as on 31.03.2023 shall be………………

(a) Rs 20,625.50 (b) Rs 20,870.45 (c) Rs 20,975.60 (d) Rs 21,565.75

4. NAV per unit as on 31.03.2023 shall be approximately………………

(a) Rs 24.65 (b) Rs 24.85 (c) Rs 25.95 (d) Rs 26.45

5.NAV as on 31.03.2024 shall be approximately………………

(a) Rs 20.50 (b) Rs 25.95 (c) Rs 26.75 (d) Rs 27.20

Case Scenario 18- (MTP Sep'24)

The Asset Management Company of the mutual fund (MF) has declared a dividend of 9.98% on the units under the dividend reinvestment plan for the year ended 31st March 2021. The investors are issued additional units for the dividend at the rate of closing Net Asset Value (NAV) for the year as per the conditions of the scheme. The closing NAV was Rs 24.95 as on 31st March 2021. An investor Mr. X who is having 20,800 units at the year-end has made an investment in the units before the declaration of the dividend at the rate of opening NAV plus an entry load of

Rs 0.04. The NAV has appreciated by 25% during the year. Assume the face value of the unit as Rs 10.00.

Based on above Case Scenario, answer the following questions:

1. The Opening NAV of the Asset Management Company shall be …………

(a) Rs 20.24 (b) Rs 19.96 (c) Rs 18.75 (d) Rs 17.65

2. The Number of the units purchased shall be ………………….

(a) 18750 (b) 17500 (c) 20450 (d) 20000

3. Original amount of the investment shall be ………………

(a) Rs 4,00,000 (b) Rs 6,50,000 (c) Rs 3,55,000 (d) Rs 5,65,000

4.Which of the following statement about Expense ratio is/ are incorrect:

(i) It is the percentage of income that were spent to run a mutual fund.

(ii) It includes advisory fees, travel costs, registrar fees , custodian fees, etc.

(iii) It includes Brokerage costs for trading of Portfolio.

(iv) High Expense Ratio can seriously undermine the performance of a mutual fund scheme.

(a) (i), (ii), (iii) (b) (i), (iii) (c) only (iii) (d) only (i)

5. …………………considers and uses downside deviation instead of total standard deviation in denominator.

(a) Expense Ratio (b) Sharpe Ratio (c) Treynor Ratio (d) Sortino Ratio

Case Scenario 19- (MTP Sep'24)

You as an investor had purchased a 4-month European Call Option on the equity shares of X Ltd. for Rs 10, of which the current market price is Rs 132 per share and the exercise price Rs 150. You expect the price to range between Rs 120 to Rs 190. The expected share price of X Ltd. and related probability is given below:

Expected Price (Rs)	120	140	160	180	190
Probability	0.05	0.20	0.50	0.10	0.15

Based on above case scenario answer the following questions:

1. Expected price of share of X Ltd. at the end of 4 months shall be…….

(a) Rs 160.00 (b) Rs 160.50 (c) Rs 158.00 (d) Rs 140.00

2. Suppose if the exercise price prevails at the end of 4 months the Value of Call Option shall be…………

(a) Rs 0 (b) Rs 18 (c) Rs 10 (d) Rs 14

3. In case the option is held to its maturity, the expected value of the call option shall be……………

(a) Rs 0 (b) Rs 18 (c) Rs 10 (d) Rs 14

4. In the given different scenarios of expected prices of share of X Ltd. at the time of maturity the option shall be in-the-money in ________scenarios.

(a) two (b) three (c) five (d) In none of the scenario

5. In the given different scenarios of expected prices of share of X Ltd. at the time of maturity the option shall be at-the-money in__________scenarios.

(a) two (b) three (c) five (d) In none of the scenario

Case Scenario 20- (MTP Oct'24)

Suppose you are a risk manager at a financial institution, and your company has loaned a significant amount of Rs 500 crore to a company X Ltd. for a period of 3 years at 6-month at MCLR plus 200 bps. You are concerned about X Ltd.'s ability to repay the debt due to recent market volatility. To protect your institution from potential default, you decide to purchase a Credit Default Swap (CDS) from ABC Bank Ltd. for same notional amount at a premium quoted at 1% per year through cash settlement.

On the respective reset dates for the same period actual MCLR interest rate comes out as follows:

Reset	MCLR
1	9.75%
2	10.00%
3	10.25%
4	10.35%
5	10.50%
6	10.60%

Based on above case scenario answer the following questions:

1. The primary purpose of a Credit Default Swap (CDS) is..................

(a) to increase the value of bonds. (b) to protect against default risk of a debt obligation.

(c) to provide guaranteed profit to the buyer. (d) to create a new form of loan.

2. Which of the following statements is true about CDS contracts?

(a) CDS contracts cannot be used for speculation.
(b) CDS contracts are governed by government regulations.
(c) CDS contracts are private agreements between two parties.
(d) CDS contracts eliminate all risks for the buyer.

3. Which organization publishes the guidelines and rules for conducting Credit Default Swap transactions?
(a) Federal Reserve
(b) International Swap and Derivative Association (ISDA)
(c) Securities and Exchange Commission (SEC)
(d) World Trade Organization (WTO)

4. Assuming no default occurs the total premium your company will pay during the designated loan period shall be
(a) Rs 5 crore (b) Rs 10 crore (c) Rs 15 crore (d) Rs 30 crore

5. Suppose if the lender defaults somewhere in the beginning of third year of loan (after payment of interest upto 2 years) and the market value of a reference loans falls to 75% of its par value, then ABC Bank will pay your company in a cash settlement.
(a) Rs 15 crore (b) Rs 30 crore (c) Rs 125 crore (d) Rs 500 crore

Case Scenario 21- (MTP Oct'24)

XYZ Ltd. is a mid-sized manufacturing company that produces industrial equipment. The company is considering a new investment project—a state-of-the- art automated production line, which is expected to improve production efficiency. The details of the same project are as follows:

	Rs
Initial Cost of the project	10,00,000
Sales price/unit	60
Cost/unit	40
Sales volumes	
Year 1	20000 units
Year 2	30000 units
Year 3	30000 units

The applicable discount rate is 10% p.a.
Based on above case scenario answer the following questions:
1. Sensitivity analysis helps to identify…………………..
(a) the exact profitability of the project
(b) the break-even point.
(c) the degree to which a change in each variable affects the NPV.
(d) the amount of investment required

2. The sale price per unit so that the project would break even with zero NPV shall be approximately………….
(a) Rs 40.00 (b) Rs 55.28 (c) Rs 60.00. (d) Rs 44.74

3. The cost per unit so that the project would break even with zero NPV shall be approximately………….
(a) Rs 40.00 (b) Rs 55.28 (c) Rs 60.00. (d) Rs 44.74

4. Overall …………in the sale volume will lead to the project to break even with zero NPV.

(a) increase of 23.68% (b) fall of 23.68%
(c) Increase of 31.03% (d) fall of 31.03%

5. A/an …………in the initial outlay will lead to the project to break even with zero NPV.
(a) increase of 23.68% (b) fall of 23.68%
(c) Increase of 31.03% (d) fall of 31.03%

Case Scenario 22- (MTP Oct'24)

You are an investment analyst working for a financial advisory firm. You have been asked to analyze the bond market's yield curve to assist your clients in making investment decisions. The yield curve represents the relationship between the interest rates (yield) and the time to maturity for debt securities, usually government bonds.

For simplicity, assume the following yield data for government bonds over various maturities (measured in years):

Yield Curve Table

Maturity (Years)	Yield (%)
1 Year	3.00%
2 Years	4.00%
3 Years	5.00%
5 Years	6.00%
7 Years	6.40%
10 Years	7.00%
15 Years	7.40%
30 Years	7.60%

Based on above case scenario answer the following questions:

1. The main characteristic of a normal yield curve is………………
(a) Short-term yields are higher than long-term yields.
(b) Short-term yields are lower than long-term yields.
(c) Yields remain the same across all maturities.
(d) Yields fluctuate randomly over different maturities.

2. Based on the revised yield data, what is the yield spread between the 10- year bond and the 1-year bond?
(a) 2.0% (b) 3.5% (c) 4.0% (d) 5.0%

3. An inverted yield curve typically indicates………………
(a) Economic growth (b) Economic uncertainty
(c) An upcoming recession (d) Inflationary pressure

4. If an investor is looking to invest for 2 years starting 3 years from now, the forward rate he would expect shall be
(a) 7.41% (b) 7.52% (c) 7.76% (d) 7.93%

5. If an investor is looking to invest for 2 years starting 5 years from now, the forward rate he would expect shall be………
(a) 7.41% (b) 7.52% (c) 7.76% (d) 7.93%

Case Scenario 23- (ICAI)

Following Financial data are available for PQR Ltd. for the financial year ending 2023:

	(Rs in lakh)
8% Debentures	125
10% Bonds (2022)	50
Equity Shares (Rs10 each)	100
Reserves and Surplus	300
Total Assets	600
Assets Turnovers ratio	1.1
Effective interest rate	8%
Effective tax rate	40%
Operating margin	10%
Dividend payout ratio	16.67%
Current market Price of Share	Rs 14
Required rate of return of investors	15%

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

1. 10% Bonds must have issued in the month of…………….

(a) May 2022 (b) June 2022 (c) July 2022 (d) August 2022

2. Amount of retailed earning for the financial year 2023 approximately is………….

(a) Rs 52.00 lakh (b) Rs 31.20 lakh (c) Rs 26.00 lakh (d) Rs 5.20 lakh

3. Return on Equity (ROE) of PQR Ltd. is………….

(a) 15.00% (b) 6.50% (c) 10.00% (d) 7.80%

4. Sustainable Growth Rate of PQR Ltd. shall be approximately………….

(a) 15.00% (b) 6.50% (c) 10.00% (d) 7.80%

5. Fair price of share of PQR Ltd. using Dividend Discount Model shall be approximately…………

(a) Rs 10 (b) Rs 14 (c) Rs 6.12 (d) Rs 6.51

Case Scenario 24- (ICAI)

An Indian exporting firm, Rohit and Bros. exported good worth of AUD 1 million to an importer in Sydney. Rohit and Bros. are worried about likely depreciation of AUD in near future as it is likely that the export sum will be received after 3 months. Today as such as there is no derivative contract is available in AUD to hedge itself from such depreciation.

The following data is given:

Spot rate : Rs 56.00/AUD

3 months interest rate :

India : 12 per cent per annum

Australia : 5 per cent per annum

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

1. ………hedging technique can be used Rohit and Bros. to hedge itself against the risk of depreciation of AUD.
(a) Forward Contract (b) Future Contract
(c) Option Contract (d) Money Market Hedge

2. Suppose if Rohit and Bros. want to borrow some amount in AUD in such a manner that the receivable amount can be used to repay the amount borrowed along with interest. The amount to be borrowed by Rohit and Bros. shall be approximately………
(a) AUD 1 million (b) AUD 9,87,654 (c) Rs 5,53,08,624 (d) Rs 5,69,67,882

3. Suppose if Rohit and Bros. borrows a designated amount in AUD for 3 months in such a manner that the receivable amount can be used to repay the amount borrowed along with interest and plan to invest same amount in Indian spot market. The same amount available for investment shall be approximately………
(a) AUD 1 million (b) AUD 9,87,654 (c) Rs 5,53,08,624 (d) Rs 5,69,67,882

4. Suppose if Rohit and Bros. borrows a designated amount for 3 months in AUD in such a manner that the receivable amount can be used to repay the amount borrowed along with interest. Further he plans to invest same amount in Indian spot market. The amount obtained after 3 months of investment shall be approximately………
(a) AUD 1 Million (b) AUD 9,87,654 (c) Rs 5,53,08,624 (d) Rs 5,69,67,883

5. Suppose if Interest Rate Parity theory is held between INR and AUD, then forward rate between INR and AUD for 6 month should be…………..
(a) Rs 51.54/AUD (b) Rs 57.91/AUD (c) Rs 52.50/AUD (d) Rs 59.73/AUD

Case Scenario 25- (ICAI)(RTP May 2025)

Mr. B is a rational risk taker. He takes his position in a single stock for 4 days in a week. He does not take a position on Friday to avoid weekend effect and takes position only for four days in a week i.e. Monday to Thursday. He transfers the amount on Monday morning and withdraws the balance on Friday morning. He desires to take a maximum exposure in the single stock (not the portfolio) where Value at Risk (VAR) should not exceed the balance lying in his bank account. The position by his manager, as per standing instructions, is taken on the free balance lying in the bank account in the morning on each Monday.

On Monday morning (before opening of the capital market) he has transferred an amount of Rs 11 Crore to his bank account. A fixed deposit also matured on this Monday. The maturity amount of Rs 63,42,560 was also credited to his account by the bank in the morning of the Monday. However, Mr. B received the intimation of the same in the evening. The bank needs a minimum balance of Rs 1,000 all the time.

The other information with respect to stocks X and Y, which are under consideration for this week, is as under:

X		Y	
Return	Probability	Return	Probability
6	0.10	4	0.10
7	0.25	6	0.20
8	0.30	8	0.40
9	0.25	10	0.20
10	0.10	12	0.10

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

1. Available amount which can be used by Mr. B for potential exposure for 4 days on Monday morning shall be
(a) Rs 11,00,00,000 (b) Rs 11,63,41,560 (c) Rs 11,00,01,000 (d) Rs 11,63,42,560

2. The Z-score at a 99% confidence level for Mr. B's Value at Risk (VaR) is............
(a) 1.64 (b) 1.96 (c) 2.33 (d) 2.58

3. The expected return for the stocks X is..........
(a) 7% (b) 8% (c) 9% (d) 10%

4. The expected return for the stocks Y is.........
(a) 7% (b) 8% (c) 9% (d) 10%

5. In which stock should Mr. B invest in to maximize his returns while maintaining his Value at Risk (VaR) within acceptable limits?
(a) Stock X (b) Stock Y (c) Both stocks are equally good (d) Neither stock is suitable

Case Scenario 26- (ICAI)

XYZ Ltd. plans to invest Rs 800,000 in a new unit. The project is expected to have a useful life of 4 years, with no salvage value at the end of its life. The annual depreciation charge for the project is Rs 200,000.
Projected revenues and costs for the project, ignoring inflation, are provided as follows:

Year	Revenues (Rs)	Costs (Rs)
1	600,000	300,000
2	700,000	400,000
3	800,000	400,000
4	800,000	400,000

XYZ Ltd. is subject to a corporate tax rate of 60%, and the cost of capital for the project, including inflation premium, is 10%.
Depreciation provides a tax benefit, and inflation rates for revenues and costs over the project's lifespan are as follows:

Year	Revenue Inflation	Cost Inflation
1	10%	12%
2	9%	10%
3	8%	9%
4	7%	8%

From the information given above, choose the correct answer to the following questions:
1. The depreciation tax benefit for the project per year shall be...............
(a) Rs 120,000 (b) Rs 150,000 (c) Rs 200,000 (d) Rs 180,000

2. The inflation-adjusted revenue in Year 2 shall be................
(a) Rs 700,000 (b) Rs 839,300 (c) Rs 492,800 (d) Rs 501,760

3. The total cash inflow in Year 1 after adjusting for inflation and tax benefit on depreciation shall be............
(a) Rs 330,000 (b) Rs 336,000 (c) Rs 249,600 (d) Rs 492,800

4. The inflation-adjusted cost in Year 2 shall be…………….
(a) Rs 700,000 (b) Rs 839,300 (c) Rs 492,800 (d) Rs 501,760

5. The present value of cash inflow for the year 3 shall be approximately………..
(a) Rs 213,604 (b) Rs 226,299 (c) Rs 226,886 (d) Rs 239,949

Case Scenario 27- (ICAI)

An investor is evaluating two companies, A Ltd. and B Ltd., to determine which company is a better investment. Both companies have different expected returns, standard deviations, and betas.

- A Ltd. has an expected return of 22% and a standard deviation (risk) of 40%. Its Beta is 0.86.
- B Ltd. has an expected return of 24%, a standard deviation of 38%, and a Beta of 1.24.

The correlation coefficient between the returns of A Ltd. and B Ltd. is 0.72, and the standard deviation of the market return is 20%.

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

1. The portfolio's expected rate of return, if the investor invests 30% in B Ltd. and 70% in A Ltd. shall
(a) 22.00% (b) 22.60% (c) 23.40% (d) 24.00%

2. The standard deviation of the investor's portfolio if 30% is invested in B Ltd. and 70% in A Ltd. shall be approximately
(a) 40% (b) 39% (c) 37% (d) 35%

3. The covariance between returns of Stock of A Ltd. and B Ltd. shall be approximately……….
(a) 0.0230 (b) 0.1094 (c) 0.7200 (d) 0.2189

4. Based on the data given the Risk Free Rate of Return shall be approximately ………..
(a) 17.48% (b) 18.00% (c) 20.00% (d) 22.74%

5. Based on the data given the Market Rate of Return shall be approximately……………
(a) 17.48% (b) 18.00% (c) 20.00% (d) 22.74%

Case Scenario 28- (ICAI)

XYZ Ltd., a U.S. firm, will require £ 300,000 in 180 days and is evaluating different strategies to hedge against currency risk. The available market data is as follows:

Current Spot Rate: 1 £ = $ 2.00

180-Day Forward Rate: 1 £ = $ 1.96

Interest Rates for 180 days:

- UK (180 days): Deposit Rate: 4.5% Borrowing Rate: 5%
- US (180 days): Deposit Rate: 5% Borrowing Rate: 5.5%

Option Contract:

- Call option available on £, expiring in 180 days with:

Exercise price: $ 1.97

Premium: $ 0.04

XYZ Ltd. has forecasted the following probabilities for spot rates after 180 days:

Spot Rate	Probability

$ 1.91	25%
$ 1.95	60%
$ 2.05	15%

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

1. The expected dollar amount needed if XYZ Ltd. does not hedge.

(a) $ 5,88,000 (b) $ 6,05,741 (c) $ 5,95,560 (d) $ 5,86,500

2. If XYZ Ltd. chooses the forward contract option, the expected dollar amount needed in 180 days, the total dollar amount required shall be...................

(a) $ 5,88,000 (b) $ 6,05,741 (c) $ 5,95,560 (d) $ 5,86,500

3. Under the money market hedge, approximately how much will XYZ Ltd. need to repay after 180 days?

(a) $ 5,88,000 (b) $ 6,05,741 (c) $ 5,95,560 (d) $ 5,86,500

4. If XYZ Ltd. chooses the call option contract, after 180 days the total cost in dollar for £ 300,000 (inclusive of interest on Premium amount) shall be...................

(a) $ 5,88,000 (b) $ 6,05,741 (c) $ 5,95,560 (d) $ 5,86,500

5. The expected spot rate per£ after 180 days shall be approximately................

(a) $ 1.91 (b) $ 1.94 (c) $ 1.96 (d) $ 2.05

Case Scenario 29- (ICAI)

P Ltd. is planning to borrow an amount of Rs 60 crores for a period of 3 months in the coming 6 month's time from now. The current rate of interest is 9% p.a., but it is likely to go up in 6 month's time. The company wants to hedge itself against the likely increase in interest rate.

You as CFO has been asked to suggest both traditional as well as modern methods to hedge interest rate risk.

Suppose the banker of P Ltd. has quoted the following Forward Rate Agreement (FRA) rates:

3 x 6	9.10%	9.15%
6 x 9	9.20%	9.30%
9 x 12	9.35%	9.45%

P Ltd. has already issued redeemable bonds or debentures.

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

1. Which of the following rate shall be applicable for FRA to hedge the interest rate risk if P Ltd. agrees to adopt this method to hedge interest rate risk?

(a) 9.10% p.a. (b) 9.30% p.a. (c) 9.35% p.a. (d) 9.45% p.a.

2. If the actual rate of interest after 6 months happens to be 9.60%, approximately the settlement amount of

(a) Rs 733,855 shall be paid by P Ltd. to its Banker.
(b) Rs 439,453 shall be paid by P Ltd. to its Banker.
(c) Rs 439,453 shall be paid by Banker to P Ltd.
(d) Rs 733,855 shall be paid by Banker to P Ltd.

3. If the actual rate of interest after 6 months happens to be 8.80%, approximately the settlement amount of

(a) Rs 733,855 shall be paid by P Ltd. to its Banker.
(b) Rs 439,453 shall be paid by P Ltd. to its Banker.
(c) Rs 439,453 shall be paid by Banker to P Ltd.
(d) Rs 733,855 shall be paid by Banker to P Ltd.

4. Which of the following technique is not the modern technique to hedge the interest rate risk.

(a) Interest Rate Futures
(b) Interest Rate Options
(c) Interest Rate Swaps
(d) Forward Rate Agreement

Case Scenario 30- (ICAI)

XYZ Ltd., a medium-sized company in the renewable energy sector, is experiencing steady sales growth. The company's management, however, is concerned about balancing rapid growth with long-term sustainability. In the past year, XYZ's growth objectives have led to aggressive expansion plans, but management now realizes that such growth might not be financially sustainable in the long run. This raises concerns about how to maintain the company's financial health while meeting its ambitious growth targets.

The CFO of XYZ Ltd. highlights the importance of Sustainable Growth Rate (SGR).

The company now needs to ensure that its operational and financial policies align with its growth goals. XYZ must avoid expanding too quickly, which could strain its financial resources and lead to excessive borrowing. Moreover, management must also consider the long-term implications of resource consumption, particularly in the renewable energy industry, where sustainability is key to both current and future stakeholders.

XYZ Ltd. also realizes that it needs to focus on building its growth capability alongside its growth strategy. Without the necessary infrastructure and financial planning in place, the company's efforts to achieve long-term, sustainable growth could be in jeopardy. Furthermore, the company is aware of the risks of relying too much on external financing and recognizes the need for a balance between maintaining sufficient equity and minimizing debt.

Given the importance of these considerations, XYZ's management team must now review their growth strategy and financial policies to ensure they are consistent with the firm's sustainable growth objectives.

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

1. The concept of Sustainable Growth Rate introduced by..................

(a) Harry Markowitz
(b) William Sharpe
(c) Black Scholes
(d) Robert C. Higgins

2. The Sustainable Growth Rate (SGR) represents................

(a) the rate at which the company can grow by issuing more equity.
(b) the maximum rate of growth in sales that can be achieved without borrowing additional funds.
(c) the growth rate determined by market demand for XYZ's products.
(d) the rate of growth determined by inflationary pressures.

3. According to the case scenario the risk associated with growing too quickly is that..........

(a) the company might not be able to retain competent staff.
(b) the company could face liquidity issues due to over-expansion.
(c) the company's stock price might decline.
(d) it could reduce the company's market share.

4. Which of the following twin cornerstones are necessary for XYZ Ltd. to achieve sustainable growth?

(a) Market conditions and competition.
(b) Growth capability and growth strategy.
(c) Product innovation and marketing strategy.
(d) Cost-cutting measures and increased sales.

5. In an inflationary condition if creditors require that XYZ Ltd.'s historical cost debt-to-equity ratio stay constant, the inflation......

(a) reduces the need for external financing.
(b) increases the sustainable growth rate by lowering costs.
(c) lowers the sustainable growth rate.
(d) It has no effect on the company's growth rate.

Case Scenario 31- (Nov'24 Exam)

The Company X Ltd. proposes to take over Y Ltd. The chief executive of a company thinks that shareholders always look for the earnings per share. Therefore he considers maximization of the earnings per share as his company's objective. The following information is available in respect of X Ltd. and Y Ltd.

	X Ltd	Y Ltd
Net Profit	80 Lakhs	15.75 Lakhs
PE Ratio	10.50	10
Current MPS	Rs.42	Rs.85

From the information given above, choose correct answer to the Question no. 1 to 3:

1. No. of shares to be issued by X Ltd.

a. 3.9375 lakhs b. 1.7639 lakhs c. 3.7485 lakhs d. 0.3631 lakhs

2. Maximum exchange could keep which the company should offer so that the company could keep EPS at current level is

a. 1:0.952 b. 1:2.125 c. 1:2.023 d. 1:0.196

3. If the company borrows funds @15% rate of interest and buys out Target Company by paying cash, how much should he offer to maintain his EPS assuming tax rate @30%.

a. 210 lakhs b. 315 lakhs c. 150 lakhs d. 0 lakhs

Case Scenario 32- (Nov'24 Exam)

Based on the following information, choose the correct answer from the following questions:

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

From the information given above, choose the correct answer to the Question no. 1 to 3:

1. 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

2. In situation I, the investor's position and 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

3. 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)

Case Scenario 33- (Nov'24 Exam)

The following information is available in respect of Bond 1 and bond 2

	Bond 1	Bond 2
Face Value, Redeemable at Par	Rs.1000	Rs.1000
Coupon Payable annually	6%	10%
Time to maturity(years)	5	3

An investor has the portfolio consisting of 75% of Bond 1 and 25% of Bond 2. Current YTM prevailing in the market is 10%.

PVF at 10% are 0.9091, 0.8264, 0.7513, 0.6830 and 0.6209

From the information given above, choose the correct answer to the Question no. 1 to 4

1.What should be the price and duration of Bond 1?

a. ₹ 848.34 and 4.43 b. ₹ 811.09 and 4.38 c. ₹ 1,227.44 and 4.43 d. ₹ 658.15 and 3.90

2.What will be the price sensitivity of the portfolio?

a. -4.027 b. -2.491 c. -3.643 d. -3.981

3. What should be the price and duration of Bond 2?

a. ₹ 826.43 and 2.49 b. ₹ 1,000 and 2.74 c. ₹ 924.85 and 2.74 d. ₹ 1000 and 2.49

4. New price of the portfolio if YTM changes from 10% to 10.5% based on the duration is:

a. ₹ 870.12 b. ₹ 902.36 c. ₹ 1832.23 d. ₹ 1864.45

Case Scenario 34- (Nov'24 Exam)

Z Ltd. paid a dividend of 5 for the current year. The dividend is expected to grow at 25% for the next 6 years and at 10% per annum thereafter. The return of government bond is 13% per annum and market return is expected to be around 20%. The correlation between market return and Z Ltd. share return is 0.3733. The standard deviation of market return and Z Ltd. shares is 12% and 18% respectively. Round off to two decimal places. From the information given above, choose the correct answer to the

1. What is the expected return of Z Ltd shares?

a. 15% b. 23.92% C 16.92% D. 16.5%

2. What is value in perpetuity at the start of the

a. ₹156.69 b. ₹303.14 c. ₹349.62 d. ₹341.30

3. If current market price of the shares is 315 than stock is

a. Over valued b. Under valued c. Fairley valued d. Cannot be determined

4. What is the present value of cash flow arising at the end of 4th year?

a. ₹23.71 b. ₹12.56 c. ₹6.53 d. ₹6.99

5. What is the intrinsic value of Z Ltd. shares?

a. ₹156.69 b. ₹303.14 c. ₹349.62 d. ₹341.30

Case Scenario 35- (ICAI)

M Limited has a market capitalization of ₹ 3,000 crore and the current earnings per share (EPS) is ₹ 200 with a price earnings ratio (PER) of 15. The Board of directors is considering a proposal to buy back 20% of the shares at a premium which can be supported by the financials of the company. The Boards expects post buy back market price per share (MPS) of ₹ 3057. Post buy back PER will remain same. The company proposes to fund the buy back by availing 8% bank loan since available resources are committed for expansion plans.

Applicable income tax rate is 30%.

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

1. The number of shares proposed to be bought back is…………………..

(a) 12 lakhs (b) 15 lakhs (c) 20 lakhs (d) 22 lakhs

2. The interest amount which can be paid for availing the bank loan shall be…………………..
(a) ₹ 5,280.00 Lakhs (b) ₹ 5,575.00 Lakhs (c) ₹ 4865.00 Lakhs (d) ₹ 6485.00 Lakhs

3. The loan amount to be raised shall be……………………..
(a) ₹ 55650 Lakhs (b) ₹ 62300 Lakhs (c) ₹ 66000 Lakhs (d) ₹ 72450 Lakhs

4. The premium per share paid over the current MPS shall be……………………..
(a) ₹ 200 (b) ₹ 250 (c) ₹ 300 (d) ₹ 350

5. % premium over current MPS shall be……………………………..
(a) 12% (b) 14% (c) 10% (d) 15%

ANSWERS TO CASE SCENARIOS

Case Scenario	Q 1	Q 2	Q 3	Q 4	Q 5
1	a	a	d		
2	a	b	a	c	
3	b	d	b		
4	b	a	c	b	
5	c	a	c	a	
6	d	b	c	b	
7	b	a	b		
8	b	c	c	c	
9	a	b	c	c	b
10	d	c	b	b	c
11	b	d	b	b	a
12	b	a	c	b	c
13	b	a	c	d	b
14	a	c	b	d	c
15	d	b	b	a	a
16	b	c	c	d	b
17	B	a	c	c	c
18	b	d	a	c	d
19	b	a	d	b	d
20	b	c	b	c	c
21	c	b	d	b	c
22	b	c	c	b	a
23	b	c	d	b	d
24	d	b	c	d	b
25	b	c	b	c	a
26	a	b	c	c	d
27	b	c	b	a	d
28	d	a	b	c	c
29	b	c	a	d	
30	d	b	b	b	c
31	a	b	c		
32	a	b	a		
33	a	c	b	a	
34	c	b	a	c	a
35	c	a	c	c	c

Other MCQs

Chapter 1: Financial Policy and Corporate Strategy

Question 1: The strategic financial management is
(a) backward looking
(b) report-focused discipline
(c) forward-looking subject of financial management
(d) All of the above
Description: Strategic financial management combines the backward-looking, report-focused discipline of (financial) accounting with the more dynamic, forward-looking subject of financial management.

Question 2: …………………. is the springboard for wealth creation.
(a) Investment in highly risky securities.
(b) Capital investment
(c) Foreign Exchange Risk Management
(d) None of the above
Description: Remaining two activities are later activities.

Question 3: The primary objective of investors in a world of economic uncertainty is........
(a) to select investment and financial opportunities that will give them maximum expected returns at minimum risks.
(b) to select investment and financial opportunities that will give them maximum expected returns at maximum risks.
(c) to select investment and financial opportunities that will give them minimum expected returns at maximum risks.
(d) None of the above
Description: Basis of wise investment decisions.

Chapter 2: Risk Management

Question 1: ………………………..is associated with diffusion of economic crisis throughout a market, asset class or geographic region.
(a) Systematic Risk
(b) Unsystematic Risk
(c) Contagion Risk
(d) Credit Risk

Question-2: Which of the following techniques can be used to manage counter party risk?
(a) Local sourcing of raw materials and labour.
(b) Evaluating countrys macro-economic conditions.
(c) Rapid action in the event of any likelihood of defaults.
(d) Entering into joint ventures.

Question 3: Which type of risk occurs when a counter party fails to honour their obligations?
(a) Interest Rate Risk
(b) Currency Risk
(c) Credit Risk
(d) Political Risk
Description: Other risks are related to external factors.

Question-4: Which type of risk is primarily faced by a company when it ventures into a new industry or geographical area with completely different laws and regulations?
(a) Operational Risk
(b) Compliance Risk
(c) Currency Risk
(d) Financial Risk
Description: Lesser knowledge of the Rules and Regulations of different country.

Question-5: One year VaR [Value at risk] of a portfolio is Rs. 10 crores with a confidence level of 95%. This means..........

(a) There is a 5% probability that the loss will be Rs. 10 crores at the end of the year

(b) The loss will not exceed Rs. 9.5 crores during valuation anytime during the year

(c) The worst expected portfolio loss over one year will not exceed Rs. 10 crore with 95% confidence

(d) The investor can presume that there is a 95% chance of loss over one trading year will exceed Rs. 10 crore

Chapter 3: Advanced Capital Budgeting Decisions

Question-1: Nominal cash flows are cash flows which _______inflation.

(a) includes (b) excludes (c) are neutral of (d) completely ignores

Question 2: Variance measures....

(a) How far each number in the set is from the mean. (b) The mean of a given data set.

(c) Return on Investment (d) Level of risk borne for every percent of expected return.

Question 3: Which of the following critical factor is generally overlooked by capital budgeting decision makers.

(a) Quantitative factors **(b) Qualitative factors**

(c) Time factor (d) Discounting factor

Question 4: Expected cash flows are calculated as:

(a) Sum of likely cash flow of the project.

(b) Sum of likely cash flow of project multiplied by probability of respective cash flows.

(c) Sum of likely cash flow of project divided by probability of cash flow.

(d) none of these

Question 5: The projects bearing higher risky cash flow should be evaluated with discount rate...........

(a) lower than risk free rate. (b) equal to risk free rate.

(c) higher than risk free rate. (d) equal to Treasury Bills Rate.

Question 6: Certainty Equivalent approach is:

(a) Guaranteed return from an investment after adjusting for certainty equivalent coefficient.

(b) Return that is expected over the lifetime of a project.

(c) Equivalent to Net Present Value.

(d) An important component in Decision Tree Analysis.

Description: Consider pessimistic approach

Question 7: Scenario Analysis is considered under scenarios such as:

(a) Worst Case Scenario (b) Base Case Scenario

(c) Best Case Scenario **(d) All of the above**

Description: Consider all factors in one go.

Question 10: ……………………involves infinite calculations to obtain the possible outcomes and probabilities for any given observation.

(a) Simulation analysis (b) Sensitivity analysis

(c) Scenario analysis (d) Decision Tree approach

Question 11: When the risk is high, the cash flow under certainty equivalent coefficient is:
(a) Higher **(b) Lower** (c) No impact (d) None of the above
Description: There is inverse relationship

Question 12: …………approach is used to compare the NPVs of multiple projects which have different operating life.
(a) Simulation analysis (b) Coefficient of Variation
(c) Equivalent annual cost (d) Sensitivity analysis

Question 13: The firm expects an NPV of Rs. 10,000 if the economy is exceptionally strong (30% probability), an NPV of Rs. 4,000 if the economy is normal (40% probability), and an NPV of Rs. 2,000 if the economy is exceptionally weak (30% probability). Expected Net present value is
(a) Rs. 5,200 (b) Rs. 6,000 (c) Rs. 5,000 (d) Rs. 6,200
Description: 10000 x 0.30 + 40000 x 0.40 + 2000 x 0.30 = 5200

Question 14: Sensitivity analysis is useful in decision making because:
(a) It shows the probabilities associated with each outcome.
(b) It tells the user how much critical each input is for the Output value.
(c) It allows to calculate the probable results under different scenarios.
(d) The results of Sensitivity Analysis are reliable.
Description: Give more importance to critical factor.

Question 15: Which of the following input specified by decision maker in Simulation analysis is held constant all over the simulation runs?
(a) Exogenous variables **(b) Parameters**
(c) Random Number (d) Probability Distribution
Answer: (b)

4- Security Analysis

Question 1: Which of the following factor affects industry analysis?
(a) Product Lifecycle (b) Government Attitude
(c) State of Competition in the Industry **(d) All of these**

Question 2: As per the Dow Jones Theory the Secondary movement of stock prices last from...
(a) one year to three years. **(b) three weeks to three months.**
(c) day to day. (d) None of these

Question 3: An efficient capital market is one in which.
(a) Taxes are irrelevant.
(b) Security prices reflect available information.
(c) Securities always offer a positive rate of return to investors.
(d) Security prices are guaranteed (by the SEBI) to be fair.

Question 4: Which of the following technique is not used for economic analysis?
(a) Barometer/Indicator Approach (b) Economic Model Building Approach
(c) Mixed Forecasting d) Economic Model Building Approach

Question 5: Which factor significantly influences the demand in consumer products industries?
(a) Interest rate (b) Discount rate **(c) Inflation rate** (d) None of the above
Description: Other factor mainly impact investment decision.

Question 6: Which of the following is a drawback of the Anticipatory Surveys technique used in economic analysis?
(a) Survey results guarantee that intentions surveyed would materialize.
(b) They are regarded as forecasts per se, as there can be a consensus approach by the investor for exercising his opinion.
(c) Both of (a) and (b) **(d) None of the above**
Description: As opposite of first two options are drawbacks of Anticipatory Survey.

5- Security Valuation

Question 1: The annual interest of a bond divided by its face value is called the bond's...
(a) Coupon Rate (b) Face value (c) Maturity (d) Yield to maturity

Question 2: Which of the following is not a money market instrument?
(a) Commercial paper (b) Participatory certificates
(c) Warrant (d) Treasury Bills

Question 3: A debenture of Rs. 10000 carrying 15% coupon rate is quoted in the market at Rs.13500. The current yield on this debenture will be:
(a) 13.50% (b) 15% **(c) 11.11%** (d) 10%
Description: Interest = Rs. 1500 Yield = Rs.1500/13500 = 11.11%

Question 4: A Ltd. issued commercial paper worth 10 crores as per the following details: Date of issue: 15th June, 2022 Maturity period: 73 days No. of days in a year: 365 days Interest rate: 15% p.a. Intermediary charges: 0.1% of Net Receipts The net amount received by the company on such issue of CP shall be approximately............
(a) 9,69,90,291 (b) 9,70,87,379 (c) 9,69,77,379 (d) 9,69,00,000

Question 5: The value a zero coupon with a maturity of three years and a maturity value of Rs 1,000 discounted at 7% is
(a) Rs. 816.30 (b) Rs. 901.94 (c) Rs. 966.18 (d) Rs. 1000
Answer: (a)

Question 6: The following information is related to two bonds same in other respects: Price of Bond A = Rs. 101 Price of Bond B = Rs. 120 Coupon Rate of Bond A =14% Coupon Rate of Bond B = 15% If both the bonds are redeemable at a Premium of 10% after 2 years and the required yield on this category of Bonds is 16% then best avenue for investment shall be...
(a) Bond A (b) Bond B (c) Any of the two Bonds (d) Neither of the two Bonds

6- Portfolio Management

Question 1: Arbitrage Pricing Theory was developed by………………
(a) William Sharpe (b) Harry Markowitz **(c) Stephan Ross** (d) Black Scholes

Question 2: What is the common hypothesis for Traditional and Modern Theories of Portfolio Management.
(a) Both approaches use statistical methods.
(b) Both approaches are based on judgement.
(c) Both approaches are based on hypothesis that a portfolio reduces risk by diversification.
(d) None of these

Question 3: Risk Premium is:
(a) Extra rate of return expected by the Investors as a reward for bearing extra risk.
(b) Equivalent to the rate of Government Securities.
(c) Return provided to equity shareholders.
(d) Risk free rate of return.
Description: There is Risk-Return Trade off relationship.

Question 4: According to the CAPM, the intercept of Security Market Line (SML) should be equal to..........
(a) zero. (b) the expected risk premium on the market portfolio.
(c) the risk-free rate. (d) the expected return on the market portfolio.

Question 5: Calculation of Coefficient of Variance depends on:
(a) Standard Deviation (b) Expected Return
(c) Expected cash flow **(d) All of the above**
Description: CV = SD/Expected Return

7- Securitization

Question 1: ....is the process of repackaging or rebundling of illiquid assets into marketable securities.
(a) Diversification **(b) Securitization**
(c) Structured finance (d) Tokenization
Description: The term diversification is used in context of Portfolio Management. Securitization is one of the form of Structured Finance. Tokenization can be one form of issuing units after Securitization.

Question 2: The main objective of creating a Special Purpose Vehicle (SPV) in the securitization process is..
(a) to acquire legal and beneficial interest in the assets.
(b) to issue securities to the investors.
(c) to remove the asset from the balance sheet of the originator.
(d) to write off the asset as bad debt from the balance sheet of the originator.
Description: While the first two options follow the third option the fourth option is wrong option.

8- Mutual Funds

Question 1: The lower the. of the Index Fund, higher the accuracy the more predictable return is.
(a) Alpha (b) Beta **(c) Tracking Error** (d) Exist Load

Question 2: Which of the following Business Parks has launched India's first Real Estate Investment Trust (ReIT)?
(a) Galaxy Business Parks (b) DLF Cyber City
(c) Patni Knowledge Parks **(d) Embassy Office Parks**

Question 3: The major difference between open-ended and close-ended mutual fund schemes is that…….

(a) in Open Ended Schemes, investors can only make entry and exit during pre-specified intervals.
(b) Close-ended schemes allow investors to redeem their investments at any time.
(c) Open-ended schemes have a limited life, while close-ended schemes have an indefinite redemption period.
(d) Open-ended schemes have an indefinite redemption period, while close-ended schemes have a limited life.
Description: Close Ended schemes are for short duration and Open Ended Scheme are meant for indefinite period.

9- Derivatives Analysis and Valuation

Question 1: Which of the following is a traditional method for an Indian farmer to sell wheat?
(a) Forward Contract (b) Future Contract **(c) Spot Market** (d) Capital Market
Description: In Indian context first two options are modern method and last option is more related to financial instruments.

Question 2: Which of the following position provides protection from a decrease in prices of a share?
(a) Buying of Future Contracts in the share.
(b) Buying Call Option in the share.
(c) Selling of Future Contracts in the share.
(d) Selling Put Option in the share.

Question 3: When an investor buys back the same amount of futures contracts that he sold earlier is called..
(a) closing out the position. (b) going long of the futures.
(c) opening a new position. (d) None of these

Question 4: In a future contract the term Basis is.
(a) The difference between the prevailing spot price and the futures price.
(b) The difference between the current market price and the strike price.
(c) The difference between the long position and the short position.
(d) The difference between the initial margin and the maintenance margin.
Description: As such no particular terms are used for remaining options.

Question 5: What is the purpose of trading in futures?
(a) Only for speculation. (b) Only for hedging.
(c) Both for speculation and hedging. (d) Only for arbitraging.
Description: Depends on the purpose of the person taking position in Future Market. Moreover, there are low possibility of arbitrage opportunities in Future market.

Question 6: Which among the following derivative product is not traded in an exchange at all?
(a) Futures (b) Options **(c) Forwards** (d) None of these

Question 9: Which of the following is true regarding a forward contract?
(a) It is standardized.
(b) The contracting parties negotiate only on the price.
(c) The contracting parties negotiate only on quantity and quality.
(d) Both parties negotiate on quality, quantity, place, and price.

Description: First three elements are mutually negotiated by the parties among themselves.

Question 10: A short forward contract on share of A Ltd. that was negotiated some time ago will expire in 3 months and has a delivery price of Rs. 4,000. The current forward price for three-month forward contract is Rs. 4,200 and the 3-month risk-free interest rate (with monthly compounding) is 6%. The value of the same short forward contract will be..................

(a) Rs. 200 (b) - Rs. 200 (c) Rs. 197.03 **(d) Rs. 197.03**

Question 11: The spot price of an investment is Rs. 3,000 and the risk-free rate for all maturities (with continuous compounding) is 10% p.a.. Suppose the asset provides an income of Rs. 200 at the end of the first year and at the end of the second year, then three-year forward price shall be.................

(e0.10 1.1052, e0.20 1.2214 and e0.30- 1.3499)

(a) Rs. 1,967 **(b) Rs. 3,584** (c) Rs. 4,515 (d) Rs. 4,050

Question 12: Which amongst the following is not a Greek for Options Pricing

(a) Delta (b) Gamma (c) Theta **(d) Kho**

Description: It is Rho

Question 13: ABC Masala Co. purchase jeera to make its products. The company is concerned that prices may rise prior to building inventory for festivals sales. Analysts project that price per quintal could vary from Rs. 52,000 to Rs. 70,000. A September futures contract can be obtained with a Rs. 65,000 purchase prices. What is ABC's risk in this situation?

(a) Coca prices will rise above Rs. 65,000 and Tingley will purchase its coca at a price of Rs. 65,000.

(b) Coca prices will decline below Rs. 65,000 and Tingley will have to purchase coca at Rs. 65,000.

(c) Coca prices will hit Rs. 65,000 and the contract was a waste of time.

(d) ABC Co. has no risk in this situation.

Description: Contrary to Option, in Forward and Future, a commitment is involved.

Question 14: The spot price of an investment asset that provides no income is Rs. 3000 and the risk-free rate for all maturities (with yearly compounding) is 10%. The three- year forward price of same investment shall be

(a) Rs. 3,993 (b) Rs. 4,050 (c) Rs. 4,020 (d) Rs. 4,034

Answer: (a)

Question 15 : As per Real Option in Capital Budgeting any commitment to disinvest upon the action of another party is called...........

(a) Long Call (b) Long Put **(c) Short Call** (d) Short Put

Question 16: A put option on a companys stock has an exercise price of Rs. 200. On the delivery date, the stock is trading at Rs. 240 per share. What should the investor who has paid Rs. 20 for the option do?

(a) Not exercise the option and lose Rs. 20. (b) Not exercise the option and lose Rs. 60.

(c) Exercise the option and gain Rs. 20. (d) Exercise the option and gain Rs. 40.

Description: Rs. 20 is sunk cost. By exercising option Rs.40 be more lost.

Question 17: Mr. A a speculator shorts 1000 shares of X Ltd. when the share price was Rs. 50 and closes out the position after 3 months when the share price was Rs. 43. The company pays a dividend of Rs. 3 per share during the 3 months. The gain of Mr. A will be........

(a) Rs. 1,000 **(b) Rs. 4,000** (c) Rs. 7,000 (d) Rs. 3,000

10- Foreign Exchange Exposure and Risk Management

Question-1: US dollar is quoted today as: spot $ 1 = INR 80 and six months forward $1 = INR 83.
(a) This means $ is at discount (b) This means future of rupee is uncertain
(c) This means future of rupee is unclear **(d) This means $ is at premium**
Description: As more INR need to be surrendered to acquire same amount of US $.

Question 2: On October 10, 2022, the Spot exchange rate is INR / USD = INR 66.2525- INR 67.5945 and the two months swap points are 125 and 195. What would be the foreign exchange rate after 2 months?
(a) INR / USD INR 66.2620 INR 67.6070 (b) INR / USD INR 66.2400 INR 67.5750
(c) INR / USD INR 66.2330 INR 67.5820 **(d) INR / USD = INR 66.2650 - INR 67.6140**
Description: Swaps points shall be added to the respective rates.

Question 3: Suppose Hari approaches a forex dealer who loads INR 1.00 margin on the interbank rate for travel related remittances. If in the interbank market the USD is quoted at INR 85.46-85.50 then Mr. Hari
(a) can buy travel card at INR 84.46. (b) can buy travel card at INR 84.50.
(c) can buy travel card at INR 86.46. **(d) can buy travel card at INR 86.50.**
Description: Margin is added in selling rate by bank.

Question 4: Combination of two fixed floating currency swaps to fixed to fixed currency swap is called?
(a) Vanilla Swap **(b) Circus Swap**
(c) Extendible Swap (d) Roller-Coaster Swaps
Description: Acronym stands for Combined Interest Rate and Currency Swap.

Question 5: How does a deficit in current account affect the exchange rate of a country?
(a) Appreciation of home currency **(b) Depreciation of home currency**
(c) No impact on the exchange rate (d) It depends on the size of the deficit
Description: More foreign exchange is required to settle trade bills.

Question 6: If USD/INR spot is trading at 83.2000 and one year Swap annualized premium is trading at 6.8% then what would be the net outright rate
(a) 77.4500 (b) 77.5524 (c) 88.4500 **(d) 88.8576**
Description: Rs. 83.200 (1.068) = Rs. 88.8576

Question 7: US dollar is quoted today as: spot $ 1 = Rs. 80 and six months forward $1 = Rs. 84. The annualized forward margin is..........
(a) 10% (b) 5% (c) 3% (d) 6%
Description: [(84-80)/80] x 12/6 x100 =10%

Question 8: .... Theory substantiates that the expected disparity between the exchange rate of two currencies is approximately equal to the difference between their countries' nominal interest rates.
(a) Interest Rate Parity (b) Purchasing Power Parity
(c) International Fisher Effect (IFE) (d) None of these Your Answer:

Question 9: How can expectations affect the exchange rate of a currency?
(a) Speculators can have a substantial impact on exchange rate through speculations.

(b) The current spot/forward rates are often used to develop forecasts.
(c) A combination of forecasting techniques is used to develop forecasts.
(d) Historical data is used to predict future values.
Description: A lot of speculation activities results in unanticipated demand and supply of foreign currencies.

Question 10: A Trader sold 20 lots of USD/INR in an exchange (1 lot = $ 1000) via currency futures. He dealt at a future price of INR 78/$ for 3 months. Currently future price is trading at INR 82/$. The M2M (Mark to Market) of trader in the exchange shall be.......
(a) INR 4000 (b) INR 8000 **(c) INR 80000** (d) INR 40000
Description: (INR 82-INR 78) x $ 1000 x 20 = INR 80000

Question 11: T & L Ltd has submitted its bid along with bid bond guarantee of its bank for Green-house gas construction project in Australia with expected cash flows spread over next 3 years. Though its pricing is very competitive, it is not sure of securing it due to other factors. But if secured, it has a huge exchange risk in the invoicing currency viz.: AUD. It can opt for the following derivative product to protect itself.
(a) Forward contract (b) Futures contract ``**(c) Option contract** (d) Swaps
Description: In case if contract is not secured even then will not be bound by the contract in AUD.

Question 12: An Indian exporter expecting a remittance of USD 5 Million, planning to hedge his position by option contracts should...........
(a) buy Call Option in USD. **(b) buy Put Option in USD.**
(c) buy Call Option in INR. (d) buy Put Option in INR.
Answer: (b)

11- International Financial Management

Question 1: Which of the following factors are crucial in multinational capital budgeting?
(a) Cash flows from domestic projects.
(b) Profits remitted to the host country.
(c) Effect of foreign exchange risk on the parent firm's cash flow.
(d) Changes in rates of inflation in the parent country.
Description: More or less first two options are based on third option. Changes in rates in inflation in parent country indirectly impacts the capital budgeting decision.

Question 2: What is the difference between evaluating a project-based cash flows and parent firms cash flows?
(a) Evaluation based on parent firms cash flows requires competition with existing local firms.
(b) Evaluation based on parent firms cash flows involves financial cash flows only.
(c) Evaluation based on parent firms cash flows eliminates problems associated with fluctuating exchange rate changes.
(d) Evaluation based on parent firms cash flows involves operating and financial cash flows.
Description: In case of evaluation of foreign projects the actual cash remitted plays a big role.

12- Interest Rate Risk Management

Question 1: The primary difference between an interest rate swap contract and a forward contract can be on account of.
(a) underlying (b) time of payment (c) daily marking to the market **(d) number of exchanges**

Question 2: Suppose A Ltd. is entering into an interest rate swap with a notional principal of Rs.10,00,00,000. At the beginning of the swap the initial amount of money the counterparties must exchange........

(a) Rs. 0 (b) Rs. 5,000,000

(c) The future value of Rs. 10,00,00,000 (d) Rs. 10,00,00,000 discounted

Description: Settlement shall be made as per prevailing interest rates on forthcoming reset dates.

Question 3: Which of the following contract involves the notional principal for the purpose of exchange of liabilities.

(a) Currency Swap **(b) Plain Vanilla Swap** (c) Forward Contract (d) None of these

13- Business Valuation

Question 1: ……………..approach attempts to identify multi-industry companies that are undervalued and would have more value if separated from each other.

(a) Economic Value Added Method (b) Market Value Added Method

(c) Chop-Shop Method (d) None of the above

Description: Other two methods mainly concerned with Cost of Capital.

Question 2: ……...method involves valuation as per determination of the cost of group of assets and liabilities of equivalent company in the open market.

(a) Net Asset Value (b) Net Realizable Value

(c) Replaceable Value (d) None of the above

Description: Net Asset Value method is based on Balance Sheet. Net Realizable Value can be defined as realizable value of all assets after deduction of liquidation expenses and paying off liabilities.

Question 3: X Ltd. made a net profit of Rs. 50,00,000 and incurred expenses of Rs. 15,00,000. The number of issued Equity shares is 10,00,000. The company has a debt of Rs. 5,00,000. The market related details are as follows: Rf = 10% Market Rate of Return = 15% ß = 1.2 The per share Earning Value of the company shall be...

(a) Rs. 31.25 (b) Rs. 21.88 (c) Rs. 312.50 (d) Rs. 218.75

Description: [(5000000/016)/1000000]

14- Mergers, Acquisitions and Corporate Restructuring

Question 1: Which type of merger happens when two companies that have buyer-seller relationship (or potential buyer-seller relationship) come together?

(a) Horizontal Merger **(b) Vertical Merger**

(c) Conglomerate Merger (d) Congeneric Merger

Description: In horizontal merger two companies merged are in the same industry. Conglomerate mergers involve firms engaged in unrelated type of business operations. In congeneric mergers, the acquirer and the target companies are related through basic technologies, production processes or markets.

Question 2: The general reason for a divestiture, such as a sell-off or spin-off may be..........

(a) Synergy (b) Economics of scale **(c) Reverse synergy** (d) None of these

Answer: (c)

Question 3: A merger that combines companies deal with the same product but in separate markets is called

(a) market extension merger. (b) pure conglomerate merger.

(c) vertical merger. (d) reverse merger.

15- Startup Finance

Question 1: In corporate restructuring when a company sells shares of the new company in market by making a public offer is called
(a) Sell off (b) Spin Off (c) Split up **(d) Equity Carve Outs**

Question-2: Which of the following can not be considered as a potential source of startup financing?
(a) Bank loans (b) Personal financing (c) Crowdfunding **(d) Government grants**
Description: Government grants are generally provided for some specific purposes.

Question 3: The vendor financing in startup involves…….
(a) borrowing funds from customer to lend funds to the company.
(b) borrowing funds from customer to purchase products from the company.
(c) lending funds to customer so that he can purchase products from different vendor.
(d) lending funds to customer so that he can purchase products from the company itself.

Question 4: Which among the following is not a method to approach a pitch presentation?
(a) Introduction of the team
(b) The market size of the product
(c) Explaining the approach to be followed to solve a problem
(d) Method to be followed by the firm to bootstrap