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Question Paper	
ADVANCED FINANCIAL MANAGEMENT	Duration: 75
Details: Test 1 (Ch-1, 3 and 8)	Marks: 45

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Q-1

The Textile Manufacturing Company Ltd. is considering one of two mutually exclusive proposals, Projects M and N, which require cash outlays of Rs. 17,00,000 and Rs. 16,50,000 respectively. The certainty equivalent (C.E) approach is used in incorporating risk in capital budgeting decisions. The current yield on Treasury bond is 6%. The expected net cash flows and their respective certainty equivalents are as follows:

Project M			Project N	
Year-end	Cash Flow Rs.	C.E.	Cash Flow Rs.	C.E.
1	9,00,000	0.8	9,00,000	0.9
2	10,00,000	0.7	9,00,000	0.8
3	10,00,000	0.5	10,00,000	0.7

Present value factors of Rs. 1 discounted at 6% at the end of year 1, 2 and 3 are 0.943, 0.890 and 0.840 respectively.

Required:

- (i) Recommend which project should be accepted?
- (ii) Suppose if risk adjusted discount rate method is to be used for evaluation then which project would be appraised with a higher discount rate and why?

(6 Marks)

Q-2

Ms. Priya is working with an MNC at Mumbai. She is well versant with the portfolio management techniques and wants to test one of the techniques on an equity fund she has constructed and compared the gains and losses from the techniques with those from a passive buy and hold strategy. The fund consists of equities only and the ending NAVs of the fund the constructed for the last 8 months are given below:

Month Ending	NAV (Rs./Unit)	Month Ending	NAV (Rs./Unit)
December 2018	40.00	April 2019	38.00
January 2019	25.00	May 2019	37.00
February 2019	36.00	June 2019	42.00
March 2019	32.00	July 2019	43.00

Assume Priya has an amount of Rs. 20 lakhs for investment and she has invested equally in the equity fund and a conservative portfolio (of bonds) in the beginning of December 2018 and the total portfolio was being rebalanced each time the NAV of the fund increased or decreased by 15%.

You are required to determine the value of the portfolio for each level of NAV following the Constant Ratio Plan.

Note: Rounded off number of units upto 2 decimal points only.

(6 Marks)

Q-3

Discuss how the role of Chief Financial Officers (CFOs) has evolved in the post-pandemic era beyond their traditional responsibilities. Highlight at least four key areas where their role has expanded.

(6 Marks)

Q-4

M/S. Corpus an AMC, on 1.04.2015 has floated two schemes viz. Dividend Plan and Bonus Plan. Mr. X, an investor has invested in both the schemes. The following details (except the issue price) are available:

Date	Dividend %	Bonus Ratio	NAV

			Dividend Plan	Bonus Plan
1.04.2015			?	?
31.12.2016		1 :4 (One unit on 4 units held)	47	40
31.03.2017	12		48	42
31.03.2018	10		50	39
31.12.2018		1 :5 (One unit on 5 units held)	46	43
31.03.2019	15		45	42
31.03.2020	-	-	49	44

Additional details

Investment (Rs.)	Rs. 9,20,000	Rs. 10,00,000
Average Profit (Rs.)	Rs. 27, 748.60	
Average Yield (%)		6.40

You are required to calculate the issue price of both the schemes as on 1.04.2015.

(8 Marks)

Q-5

PQ Ltd. expects sales of Rs. 100 lakhs in the year 1. The same will increase by Rs. 20 lakhs per year over the next four years. At the end of 5 years the project would be wound up. The Deprecation will be charged at 20% p.a. on straight line method. The expenses excluding the depreciation will be 40% of the sales. There will be no salvage value of the plant. PQ Ltd. proposes to invest in the plant an amount where the Net Present Value will be Zero.

Corporate Tax rate is 30%.

You are required to calculate the investment which can be made in the plant.

(8 Marks)

Q-6

Explain the strategic roles and interconnections of the three levels of strategy — corporate, business unit, and functional — and discuss the significance of finance in strategic planning at each level.

(6 Marks)

MCQs:-

1. Which of the following correctly represents the formula for Sustainable Growth Rate (SGR)?

- A) $SGR = ROA \times \text{Asset Turnover}$
- B) $SGR = ROE \times (1 + \text{Dividend Payment Ratio})$
- C) $SGR = ROE \times (1 - \text{Dividend Payment Ratio})$
- D) $SGR = EPS \times \text{Market Price per Share}$

2. Ankit is a financial analyst evaluating a capital investment project for her company. She's analyzing the impact of inflation on the project's cash flows and profitability. The project has an initial outlay of Rs. 100,000, an expected life of 5 years, and no salvage value. The annual revenues are projected to be Rs. 80,000, while annual costs other than depreciation are expected to be Rs. 30,000. The tax rate is 40%. The straight-line depreciation method is used, assuming no inflation.

Considering the impact of inflation at 8% per year on both revenues and costs, how will the actual net cash flow stream after deflating for inflation compare to the net cash flow stream without considering inflation?

A) The actual net cash flow stream after deflating for inflation will be greater due to higher revenues.

B) The actual net cash flow stream after deflating for inflation will be equal, as inflation only affects nominal values.

C) The actual net cash flow stream after deflating for inflation will be lower due to reduced profitability.

D) The actual net cash flow stream after deflating for inflation will be unaffected by inflation.

3. MF X has given annualized return of 9.733%, MF Y has given annualized return of -11.185% and MF Z has given annualized return of 15%. Period of holding in MF X, MF Y and MFZ is 300 days, 124 days and 195 days respectively. Assuming past performance of all three schemes will continue for next one year, what action the investor should take?

A) Sell holding of MF Y and invest partly in MF X and MF Z

B) Sell holdings of MF X and MF Y and invest in MF Z

C) Sell holdings of MF Y and invest in MF Z

D) Sell holdings of MF Y and invest in MF X

4. XYZ Corporation is a well-established manufacturing company that has been operating for several decades. The company's management is currently reviewing its financial policies and strategic alignment. Which of the following statements best represents the importance of the interface between financial policy and strategic management in XYZ Corporation?

A) Financial policy decisions should be made independently, without considering the company's strategic goals, as they primarily focus on financial aspects.

B) The company's financial policy should prioritize short-term profitability over long-term strategic objectives, as financial performance is the key driver of success.

C) Financial policy decisions and strategic management should be completely separate processes, as they involve different stakeholders and priorities.

D) The company's financial policy should be closely aligned with its strategic objectives, as financial decisions have a significant impact on the overall organizational performance and direction of growth.

5. Identify the factor which causes maximum sensitivity to the project from the following information:

Base NPV	Rs.200 lacs
NPV with 10% variation in Selling price	Rs.150 lacs
NPV with 10% variation in cost price	Rs.180 lacs
NPV with 10% variation in life	Rs.100 lacs
NPV with 10% variation in units sold	Rs.160 lacs

A) Selling price

B) Cost price

C) Life

D) Units sold

(5 x 1 = 5 Marks)