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<b>Question Paper</b>	
<b>ADVANCED FINANCIAL MANAGEMENT</b>	<b>Duration: 70</b>
<b>Details: Test 5 (Ch-2, 13 and 14)</b>	<b>Marks: 40</b>

**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

Ram Investments has a portfolio consisting of a Rs. 400 lakh investment in "Diamond" and a Rs.400 lakh investment in "Ruby". The daily volatilities of Diamond and Ruby are 1.5% and 1.3%, respectively, and their returns have a coefficient of correlation of 0.4. What is the 10-day 99% Value at Risk (VaR) for the portfolio? Also, determine the amount by which diversification reduces the VaR. (Z-score for 99% = 2.33)

(5 Marks)

### Q-2

L Ltd., is planning to acquire T Ltd., with the following data available for both the companies:

	L Ltd.	T Ltd.
Expected EPS	Rs. 12	Rs. 5
Expected DPS	Rs.10	Rs.3
No. of Shares	30,00,000	18,00,000
Current Market Price of Share	Rs. 180	Rs. 50

As per an estimate T Ltd., is expected to have steady growth of earnings and dividends to the tune of 6% per annum. However, under the new management the growth rate is likely to be enhanced to 8% per annum without additional investment.

You are required to:

- (i) Calculate the net cost of acquisition by L Ltd., if Rs. 60 is paid for each share of T Ltd.
- (ii) If the agreed exchange ratio is one share of L Ltd., for every three shares of T Ltd., in lieu of the cash acquisition as per (i) above, what will be the net cost of acquisition?

(iii) Calculate Gain from acquisition.

(5 Marks)

### Q-3

Eon Ltd. reported a profit of 120 lakhs after 20% tax for the financial year 2019-20. An analysis of the accounts revealed that the income included extraordinary items of Rs. 5 lakhs and an extraordinary loss of Rs. 15 lakhs. The existing operations, except for the extraordinary items, are expected to continue in the future. In addition, the results of the launch of a new product are expected to be as follows:

	Rs. In lakhs
Sales	100
Material costs	10
Labour costs	20
Fixed costs	20

You are required to:

- (i) CALCULATE the value of the business, given that the capitalization rate is 10%.
- (ii) DETERMINE the market price per equity share, with Eon Ltd.'s share capital being comprised of 1,00,000 13% preference shares of Rs. 100 each and 50,00,000 equity shares of Rs. 10 each and the P/E ratio being 10 times.

(6 Marks)

### Q-4

The equity shares of XYZ Ltd., are currently being traded at Rs. 34 per share in the market XYZ Ltd., has total 10,00,000 equity shares outstanding in number and promoters equity holding in the company is 30% ABC Ltd., wishes to acquire XYZ Ltd., because of likely synergies. The estimated present value of these synergies is Rs. 1,00,00,000.

Further ABC Ltd., feels that management of XYZ Ltd., has been overpaid. With better motivation, lower salaries and fewer perks for the top management, will lead to savings of Rs. 5,00,000 per annum. Top management with their families are promoters of XYZ Ltd., Present value of these savings would add Rs. 25,00,000 in value to the acquisition.

Following additional information is available regarding ABC Ltd.,

Earnings per share	Rs. 5
Total number of shares outstanding	15,00,000
Market price of equity share	Rs. 30

**You are required to:**

- (i) Calculate the maximum price per equity share which ABC Ltd., can offer to pay for XYZ Ltd.
- (ii) Calculate the minimum price per equity share at which the management of XYZ Ltd., will be willing to offer their controlling interest.

**(6 Marks)**

**Q-5**

XY Ltd., a Cement manufacturing Company has hired you as a financial consultant of the company. The Cement Industry has been very stable for some time and the cement companies SK Ltd. & AS Ltd. are similar in size and have similar product market mix characteristic. Use comparable method to value the equity of XY Ltd. In performing analysis, use the following ratios:

- i. Market to book value
- ii. Market to replacement cost
- iii. Market to sales

iv. Market to Net Income

The following data are available for your analysis:

(Amount in Rs.)

	SK Ltd.	AS Ltd.	XY Ltd.
Market Value	450	400	
Book Value	400	300	250
Replacement Cost	600	550	500
Sales	550	450	500
Net Income	18	16	14

(7 Marks)

Q-6

Identify and explain the key types of risks faced by a business organization.

(6 Marks)

MCQs:-

1. Rajesh, the CEO of a company with a surplus cash reserve of Rs.5 crores, decides to strengthen the promoter's position by increasing his stake in the company's equity. Which of the following statements regarding equity buyback is correct in this context?

- A) Equity buyback increases the number of outstanding shares.
- B) Buyback involves issuing shares to the public for the first time.
- C) After the buyback, the company's Return on Assets (ROA) typically decreases.
- D) Earnings Per Share (EPS) tends to increase after a share buyback due to reduced outstanding shares.

2. ABC Traders, an electronics wholesaler, entered into a contract with XYZ Suppliers to purchase 1,000 laptops at an agreed price, with a 50% advance payment made upfront. The delivery was scheduled for four weeks later. However, after receiving the payment, XYZ Suppliers failed to deliver the laptops on time and later declared bankruptcy due to financial troubles.

Which type of financial risk is ABC Traders exposed to in this situation?

- A) Political Risk
- B) Interest Rate Risk
- C) Counterparty Risk
- D) Market Risk

3. Rajesh, a financial analyst, is tasked with valuing a distressed company named "IndianTech Solutions," which is currently facing severe financial difficulties. He needs to determine the fair value of the company, taking into account the possibility of distress and the potential for liquidation. Rajesh considers using both the Modified Discounted Cash Flow (DCF) Valuation and the DCF Valuation + Distress Value methods.

Based on the concepts discussed in the passage, which of the following statements accurately describes the primary difference between these two valuation methods for distressed companies?

- A) The Modified DCF Valuation method incorporates probability distributions for cashflows and adjusts discount rates for default risk, while the DCF Valuation + Distress Value method only considers the expected cashflows.
- B) The Modified DCF Valuation method estimates the distress sale value separately, while the DCF Valuation + Distress Value method relies solely on the DCF value of equity.

C) The DCF Valuation + Distress Value method focuses on the likelihood of distress over the lifetime of the analysis, while the Modified DCF Valuation method considers the distress sale value as a percentage of book value.

D) Both methods are essentially the same and can be used interchangeably for valuing distressed companies.

4. Elrond Limited is planning to acquire Doom Limited. The relevant financial details of the two firms prior to the merger announcement are:

Particulars	Elrond Limited	Doom Limited
Market Price per Share	Rs. 50	Rs. 25
Number of Outstanding Shares	20 lakhs	10 lakhs

The merger is expected to generate gains, which have a present value of Rs.200 lakhs. The exchange ratio agreed upon is 0.5. Based on this information, what is the true cost of the merger from the point of view of Elrond Limited?

A) Rs. 70 lakhs

B) Rs. 40 lakhs

C) Rs. 50 lakhs

D) Rs. 60 lakhs

5. You hold shares worth Rs. 2 crore of X Ltd., with a daily price standard deviation of 2%. Assuming 252 trading days in a year, calculate the maximum loss over 1 trading day at 99% confidence level. (Z-score = 2.33)

What is the maximum expected loss for 1 trading day at 99% confidence?

- A) Rs. 4 lakh
- B) Rs. 6.66 lakh
- C) Rs. 9.32 lakh
- D) Rs. 29.47 lakh

**(5 x 1 = 5 Marks)**

