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Question Paper	
ADVANCED FINANCIAL MANAGEMENT	Duration: 70
Details: Test 4 (Ch-10, 11 and 12)	Marks: 40

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

Z Ltd. importing goods worth USD 2 million, requires 90 days to make the payment. The overseas supplier has offered a 60 days interest free credit period and for additional credit for 30 days an interest of 8% per annum.

The bankers of Z Ltd offer a 30 days loan at 10% per annum and their quote for foreign exchange is as follows:

	Rs.
Spot 1 USD	82.50
60 days forward for 1 USD	83.40
90 days forward for 1 USD	83.90

You are required to evaluate the following options:

- (i) Pay the supplier in 60 days, or
- (ii) Avail the supplier's offer of 90 days credit.

Note: -

1. Consider 360 day a year
2. Round off calculation upto whole number except the applicable rates.

(6 Marks)

Q-2

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

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

- (i) Expected market price of share at the time of issue of GDR is Rs. 350 (Face Value Rs. 100).
- (ii) 3 shares shall underly each GDR and shall be priced at 6% discount to market price.
- (iii) Expected Exchange Rate Rs. 84/\$.
- (iv) Dividend expected to be paid is 10% with growth rate of 8%.

(6 Marks)

Q-3

XY Ltd. is planning to expand its operations in view of growing demand for its products. For this purpose, it is considering to borrow an amount of Rs. 100 crores for a period of 3 months in the coming 6 months' time from now. The current rate of interest is 8% per annum but due to inflation it may go up in 6 months' time. The company wants to hedge itself against the likely increase in interest rate.

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

You are required to calculate due to FRA:

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

(5 Marks)

Q-4

On 10th July, an importer entered into a forward contract with bank for US \$ 50,000 due on 10th September at an exchange rate of Rs. 66.8400. The bank covered its position in the interbank market at Rs. 66.6800.

How the bank would react if the customer requests on 20th September:

- (i) to cancel the contract?
- (ii) to execute the contract?

(iii) to extend the contract with due date to fall on 10th November?

The exchange rates for US \$ in the interbank market were as below:

	10th September	20th September
Spot US\$1	66.1500 / 1700	65.9600 / 9900
Spot / September	66.2800 / 3200	66.1200 / 1800
Spot / October	66.4100 / 4300	66.2500 / 3300
Spot / November	66.5600 / 6100	66.4000 / 4900

Exchange margin was 0.1% on buying and selling.

Interest on outlay of funds was 12% p.a.

You are required to show the calculations to:

- (i) cancel the Contract,
- (ii) execute the Contract, and
- (iii) extend the Contract as above.

(8 Marks)

Q-5

B Bank Ltd. has entered into a plain vanilla swap through on Overnight Index Swap (OIS) on a principal of Rs. 10 crore and agreed to receive MIBOR overnight floating rate for a fixed payment on the principal. The swap was entered into on Monday, 10th July 2017 and was to commence on and from 11th July 2017 and run for a period of 7 days.

Respective MIBOR rates for Tuesday to Monday were:

8.75%, 9.15%, 9.12%, 8.95%, 8.98% and 9.15%.

If B Bank Ltd. received Rs. 4,170 net on settlement, calculate fixed rate and interest under both legs.

Notes:

(i) Sunday is a holiday

(ii) Work in rounded rupees and avoid decimal working

(iii) Consider 365 days in a year.

(5 Marks)

Q-6

PQR Ltd. is considering a project in US, which involve an initial investment of Rs. 124.50 Crore. The project will have useful life of 5 years Current spot exchange rate is INR/USD is 83. The risk free rate in US is 4.186% and the same in India is 6.9768%. Cash inflows in USD from the project are as follows:

Year	1	2	3	4	5
Cash inflow	30,00,000	40,00,000	50,00,000	60,00,000	70,00,000

PQR Ltd. is expecting net surplus of Rs. 1858.08 lakh to be received after closure of the project. There is no salvage value. PQR Ltd. want to take a forward cover to protect itself from exchange rate fluctuations.

N	1	2	3	4	5
PVIF (6.976 %, n)	0.935	0.874	0.817	0.764	0.714
PVIF (4.186%, n)	0.959	0.921	0.884	0.849	0.815
PVIF (12%, n)	0.893	0.797	0.712	0.636	0.567
PVIF (15%, n)	0.870	0.756	0.658	0.572	0.497

You are required to recommend the INR/USD rate for the forward cover?

(5 Marks)

MCQS:-

1. On 1st June 2015, a customer of ABC Bank enters into a forward contract with the bank to sell USD 1,00,000 after 2 months at a fixed rate of Rs. 65.5000 per USD. On the settlement date (31st July 2015), the spot market quotation for USD is Rs. 65.7500 / Rs. 65.2500.

What amount (in INR) will be debited to the customer's account by the bank on 31st July 2015?

A) Rs. 65,25,000

B) Rs. 65,75,000

C) Rs. 65,50,000

D) Rs. 66,00,000

2. X Ltd., an Indian company, is considering a proposal to make an investment of USD 1,65,00,000 in Latin America. The project will have a life of 5 years. The current spot exchange rate is INR/USD 72. All investments and revenues will occur in USD. The USD and INR risk-free rates are 8% and 12% respectively. The expected cash inflows from the project over the 5 years are as follows:

Year 1: USD 30,00,000

Year 2: USD 37,50,000

Year 3: USD 45,00,000

Year 4: USD 60,00,000

Year 5: USD 75,00,000

The required rate of return on the project is 14%.

Using the foreign currency approach, you are required to calculate the viability of the project and determine whether the project should be accepted based on the Net Present Value (NPV).

Based on the given information, what is the Rupee NPV of the project and what would be your conclusion regarding the project's viability?

- A) INR 109.44 Million, Project is viable (NPV positive)
- B) INR 120 Million, Project is not viable (NPV negative)
- C) INR 105.50 Million, Project is viable (NPV positive)
- D) INR 100 Million, Project is not viable (NPV negative)

3. MNP Financial is considering different types of interest rate swaps to manage their portfolio risk. They are evaluating a swap structure where both payment streams would be variable rates, but each tied to different benchmark rates with varying maturity periods.

Based on the above case, which type of swap structure is MNP Financial considering, and what is its key characteristic?

- A) Plain vanilla swap - where one party pays fixed rate and the other pays floating rate based on a single benchmark
- B) Currency swap - where payments are exchanged in different currencies with floating rates
- C) Basis rate swap - where both parties pay floating rates but each rate is tied to different benchmarks with different maturity periods
- D) Credit default swap - where payments are contingent on credit events of an underlying entity

4. Riya, a financial analyst, is studying the various types and objectives of Sovereign Wealth Funds (SWFs). She wants to understand the reasons behind the creation of SWFs and their diverse purposes. Which of the following objectives is NOT commonly associated with Sovereign Wealth Funds?

- A) Diversification from non-renewable commodity exports.
- B) Earning higher returns than foreign exchange reserves.
- C) Facilitating short-term liquidity needs of the government.
- D) Ensuring sustainable long-term capital growth for future generations.

5. The following market data is available for USD/JPY:

Spot USD/JPY: 116.00

Deposit Rates (per annum):

USD Rates:

3 months: 4.50%

6 months: 5.00%

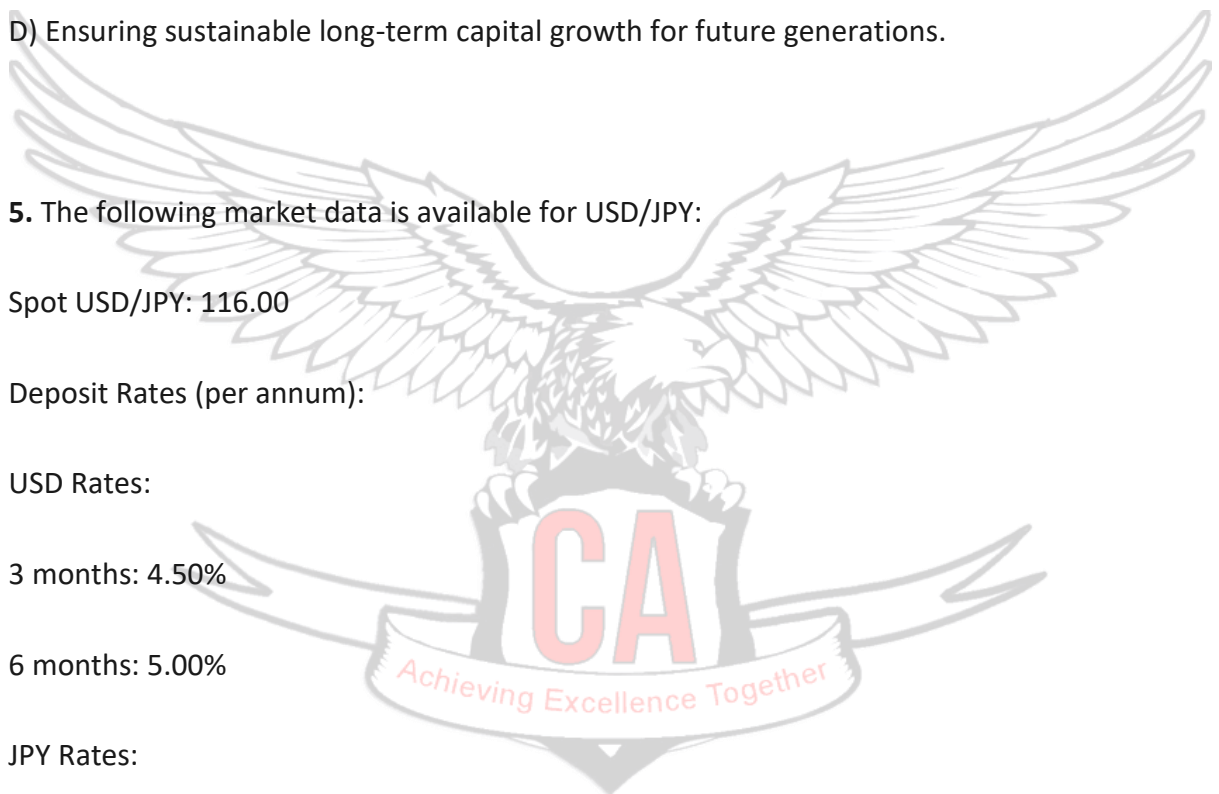
JPY Rates:

3 months: 0.25%

6 months: 0.25%

Given the above data, what is the 3-month FRA rate at 3 months forward for USD?

- A) 5.00% p.a.
- B) 4.55% p.a.
- C) 5.44% p.a.



D) 4.00% p.a.

(5 x 1 = 5 Marks)

