

The WAY CA test series – Jan 2026

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT

13.10.2025

[SYLLABUS : BUSINESS VALUATION, MERGERS, FINANCIAL POLICY & CORPORATE STRATEGY]

TIME : 2 HRS

Maximum Marks : 70

All Question Papers are uploaded Here 

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GENERAL INSTRUCTIONS TO CANDIDATES

1. Write your name and subject name at the top of the first page of your answer sheet
2. The question paper comprises of two parts, Part I and Part II.
3. Part I comprises of MCQs and Part II comprises of descriptive questions.
4. Working notes should form part of answer, if any.
5. Answers should be written only in English.
6. Duration of the examination is 2 hrs only.
7. Students who want to get their paper evaluated follow the instructions given in the channel link above.

PART I

1. Answer all MCQs
2. After each MCQ, four options are given. Choose the correct and most appropriate option, and write the letter corresponding to that option on the first page of your answer sheet.

PART II

1. Question paper comprises 4 questions.

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PART I

14 Marks

Case Study - 1

AFC Ltd. wishes to acquire BCD Ltd. The shares issued by the two companies are 10,00,000 and 5,00,000 respectively:

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 3

(3 × 2 = 6)

1. Calculate the increase in the total value of BCD Ltd. resulting from the acquisition on the basis of the following conditions:

Current expected growth rate of BCD Ltd.	7%
Expected growth rate under control of AFC Ltd., (without any additional capital investment and without any change in risk of operations)	8%
Current Market price per share of AFC Ltd.	₹100
Current Market price per share of BCD Ltd.	₹ 20
Expected Dividend per share of BCD Ltd.	₹0.60

- a) ₹ 1,50,00,000
- b) ₹ 75,00,000
- c) ₹ 50,00,000
- d) ₹ 65,00,000

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2. Basis on aforesaid conditions calculate the gain or loss to shareholders of AFC Ltd., if AFC Ltd. were to offer one of its shares for every four shares of BCD Ltd.
- a) ₹ 12.22
 - b) ₹ 20.22
 - c) ₹ 22.22
 - d) ₹ 2.22
3. Calculate the gain to the shareholders of both the Companies, if AFC Ltd. pays ₹22 for each share of BCD Ltd., assuming the P/E Ratio of AFC Ltd. does not change after the merger. EPS of AFC Ltd. is ₹8 and that of BCD is ₹2.50. It is assumed that AFC Ltd. invests its cash to earn 10%.
- a) ₹ 1 per share
 - b) ₹ 2 per share
 - c) ₹ 3 per share
 - d) ₹ 1.88 per share

Case Study - 2

H Ltd. agrees to buy over the business of B Ltd. effective 1st April, 2012. The summarized Balance Sheets of H Ltd. and B Ltd. as on 31st March 2012 are as follows:

Balance sheet as at 31 st March, 2012	(In Crores of Rupees)	
Liabilities:	H. Ltd	B. Ltd.
Paid up Share Capital		
-Equity Shares of ₹100 each	350.00	

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-Equity Shares of ₹10 each		6.50
Reserve & Surplus	950.00	25.00
Total	1,300.00	31.50
Assets:		
Net Fixed Assets	220.00	0.50
Net Current Assets	1,020.00	29.00
Deferred Tax Assets	60.00	2.00
Total	1,300.00	31.50

H Ltd. proposes to buy out B Ltd. and the following information is provided to you as part of the scheme of buying:

- (1) The weighted average post tax maintainable profits of H Ltd. and B Ltd. for the last 4 years are ₹300 crores and ₹10 crores respectively.
- (2) Both the companies envisage a capitalization rate of 8%.
- (3) H Ltd. has a contingent liability of ₹300 crores as on 31st March, 2012.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 4 and 5

(2 × 2 = 4)

4. You are required to arrive at the value of the shares of H ltd. Under Net Asset Value Method

- a) Rs 285.71
- b) Rs 371.43
- c) Rs 457.13
- d) Rs 218.01

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5. You are required to arrive at the value of the shares of B ltd. Under Earnings Capitalization Method

- a) Rs 48.46
- b) Rs 1,071.43
- c) Rs 156.35
- d) Rs 192.31

6. Voldemort PLC is considering a takeover of Hogwarts PLC. The particulars of 2 companies are given below

Particulars	Voldemart PLC	Hogwarts PLC
Earnings after tax (EAT)	\$ 20,00,000	\$ 10,00,000
Equity shares O/S	10,00,000	10,00,000
Earnings per share (EPS)	2	1
PE Ratio (Times)	10	5

The management of Voldemort estimates that the shareholders of Hogwarts will accept an offer of one share of Voldemort for four shares of Hogwarts.

Which of the following statements is true? (2 × 1 = 2)

- a) Shareholders of Voldemort are better off than Hogwarts
- b) Shareholders of both the companies are better off than Before
- c) Shareholders of neither of the companies are better off due to negative synergy
- d) Shareholders of Hogwarts are better off than Voldemort

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7. Using the chop-shop approach (or Break-up value approach), assign a value for Cranberry Ltd. whose stock is currently trading at a total market price of €4 million. For Cranberry Ltd, the accounting data set forth three business segments: consumer wholesale, retail and general centers. Data for the firm's three segments are as follows:

Business Segment	Segment Sales	Segment Assets	Segment Operating Income
Wholesale	€225,000	€6,00,000	€75,000
Retail	€720,000	€5,00,000	€1,50,000
General	€ 2,500,000	€40,00,000	€7,00,000

Industry data for “pure-play” firms have been compiled and are summarized as follows:

Business Segment	Sales/ Capitalization	Assets/ Capitalization	Operating Income/ Capitalization
Wholesale	1.18	1.43	0.11
Retail	0.83	1.43	0.125
General	1.25	1.43	0.25

(2 × 1 = 2)

- a) € 30,55,250
- b) € 35,70,000
- c) € 46,75,000
- d) € 37,66,750

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PART – II

56 Marks

Question : 1(a)

6 Marks

AB Industries has Equity Capital of ₹ 12 Lakhs, total Debt of ₹ 8 Lakhs, and annual sales of ₹ 30 Lakhs. Two mutually exclusive proposals are under consideration for the next year. The details of the proposals are as under:

Particulars	Proposal No. 1	Proposal No 2
Target Assets to Sales Ratio	0.65	0.62
Target Net Profit Margin (%)	4	5
Target Debt Equity Ratio (DER)	2:3	4:1
Target Retention Ratio (of Earnings) (%)	75	-
Annual Dividend (₹ In Lakhs)	-	0.30
New Equity Raised (₹ in Lakhs)	-	1

You are required to calculate sustainable growth rate for both the proposals.

Question : 1(b)

4 Marks

RST Ltd.'s current financial year's income statement reported its net income after tax as ₹25,00,000. The applicable corporate income tax rate is 30%.

Following is the capital structure of RST Ltd. at the end of current financial year:

	₹
Debt (Coupon rate = 11%)	40 lakhs
Equity (Share Capital + Reserves & Surplus)	125 lakhs
Invested Capital	165 lakhs

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Following data is given to estimate cost of equity capital:

Equity Beta of RST Ltd.	1.36
Risk –free rate i.e. current yield on Govt. bonds	8.5%
Average market risk premium (i.e. Excess of return on market portfolio over risk-free rate)	9%

Required:

- i. Estimate Weighted Average Cost of Capital (WACC) of RST Ltd.; and
- ii. Estimate Economic Value Added (EVA) of RST Ltd.

Question : 1(c)

4 Marks

In the current scenario of globalization and growth in information and communication technologies etc. the responsibilities of CFOs have been drastically expanded. Explain.

Question : 2(a)

5 Marks

ABC, a large business house is planning to sell its wholly owned subsidiary KLM. Another large business entity XYZ has expressed its interest in making a bid for KLM. XYZ expects that after acquisition the annual earning of KLM will increase by 10%.

Following information, ignoring any potential synergistic benefits arising out of possible acquisitions, are available:

- i. Profit after tax for KLM for the financial year which has just ended is estimated to be ₹ 10 crore.

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- ii. KLM's after – tax profit has an increasing trend of 7% each year and the same is expected to continue.
- iii. Estimated post tax market return is 10% and risk – free rate is 4%. These rates are expected to continue.
- iv. Corporate tax rate is 30%.

	XYZ	ABC	Proxy entity for KLM in the same line of business
No. of shares	100 lakhs	80 lakhs	--
Current share price	₹ 287	₹ 375	--
Dividend pay out	40%	50%	50%
Debt : Equity at market values	1 : 2	1 : 3	1 : 4
P/E ratio	10	13	12
Equity beta	1	1.1	1.1

Assume gearing level of KLM to be the same as for ABC and a debt beta of zero. You are required to calculate:

- a) Appropriate cost of equity for KLM based on the data available for the proxy entity.

A range of values for KLM both before and after any potential synergistic benefits to XYZ of the acquisition.

Question : 2(b)

5 Marks

Equity of KGF Ltd. (KGFL) is Rs. 410 crores, its debt, is worth Rs. 170 Crores. Printer Division segments value is attributable to 74%, which has an Asset Beta (β_p) of 1.45, balance value is applied on Spares and Consumables Division, which has an Asset Beta (β_{SC}) of 1.20 KGFL Debt beta (β_D) is 0.24.

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You are required to calculate:

- i. Equity Beta (β_E),
- ii. Ascertain Equity Beta (β_E), if KGF Ltd. decides to change its Debt Equity position by raising further debt and buying back of equity to have its Debt Equity Ratio at 1.90. Assume that the present Debt Beta (β_{D1}) is 0.35 and any further funds raised by way of Debt will have a Beta (β_{D2}) of 0.40

Whether the new Equity Beta (β_E) justifies increase in the value of equity on account of leverage?

Question : 2(c)

4 Marks

How financial goals can be balanced vis-à-vis sustainable growth?

Question : 3(a)

7 Marks

T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below:

	T Ltd.	E Ltd.
₹ 10 Equity shares outstanding	12 Lakhs	6 Lakhs
Debt:		
10% Debentures (₹ Lakhs)	580	--
12.5% Institutional Loan (₹ Lakhs)	--	240
Earning before interest, depreciation and tax (EBIDAT) (₹ Lakhs)	400.86	115.71
Market Price / share (₹)	220.00	110.00

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T Ltd. plans to offer a price for E Ltd., business as a whole which will be 7 times EBIDAT reduced by outstanding debt, to be discharged by own shares at market price.

E Ltd. is planning to seek one share in T Ltd. for every 2 shares in E Ltd. based on the market price. Tax rate for the two companies may be assumed as 30%.

Calculate and show the following under both alternatives – T Ltd.'s offer and E Ltd.'s plan:

- i. Net consideration payable.
- ii. No. of shares to be issued by T Ltd.
- iii. EPS of T Ltd. after acquisition.
- iv. Expected market price per share of T Ltd. after acquisition.
- v. State briefly the advantages to T Ltd. from the acquisition.

Note: Calculations (except EPS) may be rounded off to 2 decimals in lakhs.

Question : 3(b)

7 Marks

The ABC Startup has the following expected profits under different scenarios along respective probabilities:

Year	Best Case		Base Case		Worst Case	
	Revenue	Expenses	Revenue	Expenses	Revenue	Expenses
1	₹ 100,00,000	₹ 80,00,000	₹ 100,00,000	₹ 90,00,000	₹ 100,00,000	₹ 95,00,000
2	₹ 120,00,000	₹ 92,40,000	₹ 110,00,000	₹ 95,70,000	₹ 102,00,000	₹ 98,94,000
3	₹ 144,00,000	₹ 108,00,000	₹ 121,00,000	₹ 102,85,000	₹ 104,04,000	₹ 101,95,920
Probability	30%		60%		10%	

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You are required to suggest the value of ABC Startup using First Chicago Method assuming that:

- i. Applicable discounting rate is 20%.
- ii. Startup is located in Tax-free Zone.
- iii. The multiple for Terminal is 10.
- iv. No depreciable assets are held by the ABC Startup.

Note:

1. Present Value Factor (PVF)

Year	1	2	3
PVF@20%	0.8333	0.6944	0.5787

2. Round off the calculation to whole numbers.

Question : 4(a)

7 Marks

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

	Long Ltd.	Tall Ltd.
Expected EPS	₹ 12	₹ 5
Expected DPS	₹ 10	₹ 3
No. of Shares	30,00,000	18,00,000
Current Market Price of Share	₹ 180	₹ 50

As per an estimate Tall Ltd., is expected to have steady growth of earnings and dividends to the tune of 6% per annum. However, under the new

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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 Long Ltd., if ₹ 60 is paid for each share of Tall Ltd.
- ii. If the agreed exchange ratio is one share of Long Ltd., for every three shares of Tall Ltd., in lieu of the cash acquisition as per (i) above, what will be the net cost of acquisition?
- iii. Calculate Gain from acquisition.

Question : 4(b)

7 Marks

BRS Inc deals in computer and IT hardwares and peripherals. The expected revenue for the next 8 years is as follows:

Years	Sales Revenue (\$ Million)
1	8
2	10
3	15
4	22
5	30
6	26
7	23
8	20

Summarized financial position as on 31 March 2012 was as follows:

Liabilities	Amount	Assets	Amount
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Equity Stocks	12	Fixed Assets (Net)	17
12% Bonds	8	Current Assets	3
	20		20

Additional Information:

- (b) Its variable expenses are 40% of sales revenue and fixed operating expenses (cash) are estimated to be as follows:

Period	Amount (\$ Million)
1- 4 years	1.6
5-8 years	2

- (c) An additional advertisement and sales promotion campaign shall be launched requiring expenditure as per following details:

Period	Amount (\$ Million)
1 year	0.50
2-3 years	1.50
4-6 years	3.00
7-8 years	1.00

- (d) Fixed assets are subject to depreciation at 15% as per WDV method.
- (e) The company has planned additional capital expenditures (in the beginning of each year) for the coming 8 years as follows:

Period	Amount (\$ Million)
1	0.50

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2	0.80
3	2.00
4	2.50
5	3.50
6	2.50
7	1.50
8	1.00

- (f) Investment in Working Capital is estimated to be 20% of Revenue.
- (g) Applicable tax rate for the company is 30%.
- (h) Cost of Equity is estimated to be 16%.
- (i) The Free Cash Flow of the firm is expected to grow at 5% per annum after 8 years.

Calculate:

- (j) Value of Firm
- (ii) Value of Equity

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