

The WAY CA test series – SEPT 2025

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT
SEMI FINAL

29.10.2025

TIME : 3 HRS

Maximum Marks : 100

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 3 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 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions

PART I

30 Marks

Case Study - 1

ABC Ltd. plans to invest ₹ 16,00,000 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 ₹ 400,000.

Projected revenues and costs for the project, ignoring inflation, are provided as follows:

Year	Revenues (₹)	Costs (₹)
1	12,00,000	6,00,000
2	14,00,000	8,00,000
3	16,00,000	8,00,000
4	16,00,000	8,00,000

ABC 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%

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 1 to 5

(5 × 2 = 10)

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1. The depreciation tax benefit for the project per year shall be.....
 - a) ₹ 300,000
 - b) ₹ 240,000
 - c) ₹ 360,000
 - d) ₹ 400,000

2. The inflation-adjusted revenue in Year 2 shall be.....
 - a) ₹ 16,78,600
 - b) ₹ 14,00,000
 - c) ₹ 10,03,520
 - d) ₹ 9,85,600

3. The total cash inflow in Year 1 after adjusting for inflation and tax benefit on depreciation shall be.....
 - a) ₹ 672,000
 - b) ₹ 660,000
 - c) ₹ 985,600
 - d) ₹ 499,200

4. The inflation-adjusted cost in Year 2 shall be.....
 - a) ₹ 16,78,600
 - b) ₹ 14,00,000
 - c) ₹ 10,03,520
 - d) ₹ 9,85,600

5. The present value of cash inflow for the year 3 shall be approximately.....

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- a) ₹ 4,52,598
- b) ₹ 4,27,208
- c) ₹ 4,79,898
- d) ₹ 4,53,772

Case Study - 2

In a recent Board Meeting of N Ltd. following financials of N Ltd. for the year ending 31st March 2025 were presented:

Balance Sheet as on 31.03.2025

₹ '000

Liabilities		Assets	
Equity Capital	4,80,000	Fixed Assets	2,42,000
10% Bonds	92,000	Cash	88,000
Sundry Creditors	66,000	Sundry Debtors	1,10,000
Bills Payable	88,000	Closing Stock	3,3,000
Other Current Liabilities	44,000		
Total Liabilities	7,70,000	Total Assets	7,70,000

Income Statement for the Year ending 31.03.2025

Particular	(₹ '000)	(₹ '000)
Sales		11,77,000
Less: Cost of Goods Sold		
Material	4,18,000	
Wages	2,64,000	
Factory Overheads	1,29,800	8,11,800
Gross Profit		3,65,200

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Less: Selling & Distribution Cost	1,10,000	
Administrative Cost	1,22,800	2,32,800
Earnings Before Interest and Taxes (EBIT)		1,32,400
Less: Interest Charges		9,200
Earning Before Tax		1,23,200
Less: Taxes @ 50%		61,600
Net Profit (PAT)		61,600

During the Board Meeting:

- i. Director A said that the company can maintain a certain growth even though the net profit margin remains constant, and assets increases proportionately to sales and it distributes its 30% of its net profit. To maintain this growth rate, it will not require any external funds.
- ii. Director B proposed that just by maintaining a target capital structure and without issuing additional equity and maintaining target dividend pay-out ratio as proposed by Director A, more growth rate can be achieved.
- iii. Director C though agreed with views of Director A and Director B, but is of the view that in the coming year it is expected that sales is likely to rise by 15%, hence if required we can go for issue of equity shares, bonds or debentures to achieve the same growth in sales.

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 6 to 8

(3 × 2 = 6)

6. The Director A is talking about.....

- a) Internal Growth Rate

- b) Sustainable Growth Rate
- c) External Funding Requirements
- d) External Growth Rate

7. The Director B is talking about.....

- a) Internal Growth Rate
- b) Sustainable Growth Rate
- c) External Funding Requirements
- d) External Growth Rate

8. If we go by the proposal of Director C, then approximately funds shall be raised from in form of equity or debt, assuming that dividend as proposed by Director A is paid out and assets and current liabilities are increased in the same proportion as increase in sales.

- a) ` 1,15,500 thousand
- b) ` 85,800 thousand
- c) ` 79,332 thousand
- d) ` 36,212 thousand

Case Study – 3

Mr. X on 1.7.2021, during the initial offer of some Mutual Fund invested in 10,000 units having face value of ` 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%.

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On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 9 to 13

(5 × 2 = 10)

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

- a) ` 19.50
- b) ` 20.50
- c) ` 21.50
- d) ` 22.50

10. 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

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

- a) ` 20,625.50
- b) ` 20,870.45
- c) ` 20,975.60
- d) ` 21,565.75

12. NAV per unit as on 31.03.2023 shall be approximately.....

- a) ` 24.65
- b) ` 24.85
- c) ` 25.95
- d) ` 26.45

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13. NAV as on 31.03.2024 shall be approximately.....
- a) ` 20.50
 - b) ` 25.95
 - c) ` 26.75
 - d) ` 27.20

Case study – 4

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%

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 14 to 15

(2 × 2 = 4)

14. The Modern Portfolio Theory was propounded by
- a) William Sharpe
 - b) Black Scholes
 - c) Stephen Ross

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d) Harry Markowitz

15. 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

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PART – II

70 Marks

Question : 1(a)

6 Marks

There are two Mutual Funds viz. D Mutual Fund Ltd. and K Mutual Fund Ltd. Each having close ended equity schemes.

NAV as on 31-12-2014 of equity schemes of D Mutual Fund Ltd. is ₹ 70.71 (consisting 99% equity and remaining cash balance) and that of K Mutual Fund Ltd. is 62.50 (consisting 96% equity and balance in cash).

Following is the other information:

Particular	Equity Schemes	
	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Sharpe Ratio	2	3.3
Treynor Ratio	15	15
Standard deviation	11.25	5

There is no change in portfolios during the next month and annual average cost is ₹ 3 per unit for the schemes of both the Mutual Funds.

If Share Market goes down by 5% within a month, calculate expected NAV after a month for the schemes of both the Mutual Funds.

For calculation, consider 12 months in a year and ignore number of days for particular month.

Question : 1(b)

4 Marks

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ABC Co. is considering a new sales strategy that will be valid for the next 4 years. They want to know the value of the new strategy. Following information relating to the year which has just ended, is available:

Income Statement	₹
Sales	20,000
Gross margin (20%)	4,000
Administration, Selling & distribution expense (10%)	2,000
PBT	2,000
Tax (30%)	600
PAT	1,400
Balance Sheet Information	
Fixed Assets	8,000
Current Assets	4,000
Equity	12,000

If it adopts the new strategy, sales will grow at the rate of 20% per year for three years. From 4th year onward Cash Flow will be stabilized. The gross margin ratio, Assets turnover ratio, the Capital structure and the income tax rate will be remain unchanged.

Depreciation would be at 10% of net fixed assets at the beginning of the year. The Company's target rate of return is 15%.

Determine the incremental value due to adoption of the strategy.

Question : 1(c)

4 Marks

What is Financial Planning? Explain its components & Outcomes of Financial Planning.

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Question : 2(a)

6 Marks

The following information is given for 3 companies that are identical except for their capital structure:

	Orange	Grape	Apple
Total invested capital	1,00,000	1,00,000	1,00,000
Debt/assets ratio	0.8	0.5	0.2
Pre-tax cost of debt	16%	13%	15%
Cost of equity	26%	22%	20%
Operating Income (EBIT)	25,000	25,000	25,000

The tax rate is uniform 35% in all cases.

Required:

- Compute the Weighted Average Cost of Capital of each company.
- Tabulate the Economic Valued Added (EVA) of each company.
- If the industry PE ratio is 11x and stock prices of Orange, Grape and Apple are ₹ 14.30, ₹ 15.95 and ₹ 15.73 respectively then calculate the no. of shares issued by each company.
- Advise whether same Industry PE ratio can be used to calculate market price of share of each company.
- Tabulate market Capitalisation for each of the Companies.

Question : 2(b)

4 Marks

The following details are given for X and Y companies' stocks and the Bombay Sensex for a period of one year. Calculate the systematic and

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unsystematic risk for the companies' stocks. If equal amount of money is allocated for the stocks what would be the portfolio risk?

	X Stock	Y Stock	Sensex
Average return	0.15	0.25	0.06
Variance of return	6.30	5.86	2.25
β	0.71	0.685	
Correlation Co-efficient	0.424		
Co-efficient of determination (r^2)	0.18		

Question : 2(c)

4 Marks

Mr. Z will need ₹ 18,00,000 after two years for which he wants to make one-time necessary investment now. He has a choice of two types of bonds. Their details are as below:

	Bond X	Bond Y
Face value	₹ 1,000	₹ 1,000
Coupon	8% payable annually	9% payable annually
Years to maturity	1	4
Current price	₹ 964.44	₹ 909.42
Current yield	12%	12%

Advice Mr. Z whether he should invest all his money in one type of bond or he should buy both the bonds and, if so, in which quantity? Assume that there will not be any call risk or default risk.

Note: -

a. Use PVFs upto 3 decimal points.

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- b. While the numbers of bonds to be acquired to be rounded off, the remaining calculation shall be rounded off upto 3 decimal points.

Question : 3(a)

6 Marks

Mr. Amit is happy with the investment in a company as it is paying good dividend for the last few years. Last year it paid a dividend of ₹ 2 per share. The share is currently trading at ₹ 150 per share. He is of view that if he applies dividend discount model, the share is undervalued. As a financial expert examine his view that dividend discount model represents the fair value.

You being an expert is required to evaluate the market value of the share of the company.

Profit after tax of the company	₹ 290 crores
Equity capital of company	₹ 1,300 crores
Par value of share	₹ 40 each
Debt ratio of company (Debt/ Debt + Equity)	27%
Long run growth rate of the company	8%
Beta 0.1; risk free interest rate	8.7%
Market returns	10.3%
Capital expenditure per share	₹ 47
Depreciation per share	₹ 39
Change in Working capital	₹ 3.45 per share

Note: Round off figures (e.g. EPS etc.) upto 2 decimal points.

Question : 3(b)

4 Marks

Eager Ltd. has a market capitalization of Rs. 1,500 crores and the current market price of its share is Rs. 1,500. It made a PAT of Rs. 200 crores and the Board is considering a proposal to buy back 20% of the shares at a premium of 10% to the current market price. It plans to fund this through a 16% bank loan. The company's corporate tax rate is 30%. Calculate the post buy back Earnings Per Share (EPS).

Question : 3(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 : 4(a)

6 Marks

Mr. Hari Kumar has categorized all the available stock in the market into the following types:

- i. Small cap growth stocks
- ii. Small cap value stocks
- iii. Large cap growth stocks
- iv. Large cap value stocks

Mr. Hari Kumar also estimated the weights of the above categories of stocks in the market index. Further, the sensitivity of returns on these categories of stocks to the three important factor are estimated to be as follows:

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Category of Stocks	Weight in the Market Index	Factor I (Beta)	Factor II (Book Price)	Factor III (Inflation)
Small cap growth	15%	0.65	1.95	1.65
Small cap value	20%	1.25	2.23	2.15
Large cap growth	15%	2.25	3.20	8.65
Large cap value	50%	1.325	2.25	9.50
Risk Premium		8.85%	-4.25%	0.80%

The rate of return on treasury bonds is 5.80% Required:

- i. Using Arbitrage Pricing Theory, determine the expected return on the market index.
- ii. Using Capital Asset Pricing Model (CAPM), determine the expected return on the market index.
- iii. Mr. Hari Kumar wants to construct a portfolio constituting only the 'small cap growth' and 'large cap value' stocks. If the target beta for the desired portfolio is 1, suggest what should be the composition of the same.

Note: Round off calculations upto 3 decimal points.

Question : 4(b)

4 Marks

Mr. A is thinking of buying shares at ₹ 500 each having face value of ₹ 100. He is expecting a bonus at the ratio of 1: 5 during the fourth year. Annual expected dividend is 20% and the same rate is expected to be maintained on the expanded capital base. He intends to sell the shares at

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the end of seventh year at an expected price of ₹ 900 each. Incidental expenses for purchase and sale of shares are estimated to be 5% of the market price. He expects a minimum return of 12% per annum. Should Mr. A buy the share? If so, what maximum price should he pay for each share? Assume no tax on dividend income and capital gain.

Question : 4(c)

4 Marks

EITHER

Following is the Balance Sheet of M/s. PK Ltd. as on 31-03-2015:

Particulars	₹ in Lacs
I. Equity & Liabilities	
Shareholders' Fund	
Equity Share Capital (₹ 10 each)	900.00
10% Preference Share Capital (₹ 100 each)	300.00
Reserves & Surplus	(500.00)
Non-Current Liabilities	
Term Loan	400.00
Current Liabilities	
Trade Payables	400.00
Total (I)	1500.00
II. Assets	
Non-Current Assets	1000.00
Current Assets :	
Inventory	300.00
Trade Receivables	100.00
Cash & Bank Balance	100.00
Total (II)	1500.00

M/s PK Ltd. did not perform well and has suffered sizeable losses during the last few years. However, it is now felt that the company can be nursed back to health by proper financial restructuring and consequently the following scheme of reconstruction have been designed :

- a. Equity shares are to be reduced to ₹ 2 per share fully paid.
- b. Preference shares are to be reduced by ₹ 50 per share and rate of dividend on Preference shares is also reduced by 2%.
- c. Trade Payables have agreed to forego 40% of their existing claims and for the balance 50% they have agreed to convert their claims into equity shares of ₹ 2 each, fully paid.
- d. In order to make payment for Term Loan, the company issues 200 Lacs equity shares of ₹ 2 each at par. Entire sum is required to be paid on application.
- e. Non-Current Assets is to be revalued at ₹ 500 Lacs.

You are required:

1. To show the impact of financial restructuring.
2. To prepare Balance Sheet assuming the scheme of restructuring is implemented.

OR

EXPLAIN how to measure divergence or deviation of return of a Mutual Fund Scheme that replicates any benchmark Index

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Question : 5 (a)

7 Marks

Mr. A is holding 10000 shares of face value of ₹ 100 each of M/s. XYZ Ltd. He wants to hold these shares for long term and have no intention to sell.

On 1st January 2020, M/s. ABC Ltd. has made short sales of M/s. XYZ Ltd.'s shares and approached Mr. A to lend his shares under Stock Lending Scheme with following terms:

1. Shares to be borrowed for 3 months from 01-01-2020 to 31-03-2020,
2. Lending Charges/Fees of 1% to be paid every month on the closing price of the stock quoted in Stock Exchange and
3. Bank Guarantee will be provided as collateral for the value as on 01-01-2020.

Other Information:

- i. Cost of Bank Guarantee is 8% per annum,
- ii. On 29-02-2020 M/s XYZ Ltd., declared dividend of 25%,
- iii. Closing price of M/s. XYZ Ltd.'s share quoted in Stock Exchange on various dates are as follows:

Date	Share Price in Scenario -1 Bullish	Share Price in Scenario -2 Bullish
01-01-2020	1000	1000
31-01-2020	1020	980
29-02-2020	1040	960
31-03-2020	1050	940

You are required to find out:

- a. Earning of Mr. A through Stock Lending Scheme in both the scenarios,
- b. Total Earnings of Mr. A during 01-01-2020 to 31-03-2020 in both the scenarios,
- c. What is the Profit or loss to M/s. ABC by shorting the shares using through Stock Lending Scheme in both the scenarios?

Question : 5 (b)

7 Marks

Bank 'R' was established in 2005 and doing banking in India. The bank is facing DO OR DIE situation. There are problems of Gross NPA (Non – Performing Assets) at 40% & CAR / CRAR (Capital Adequacy Ratio / Capital Risk Weight Asset Ratio) at 4%. The net worth of the bank is not good. Shares are not traded regularly. Last week, it was traded @ ₹ 8 per share.

RBI Audit suggested that bank has either to liquidate or to merge with other bank.

Bank 'P' is professionally managed bank with low gross NPA of 5%. It has Net NPA as 0% and CAR at 16%. Its share is quoted in the market @ ₹ 128 per share. The board of directors of bank ' P ' has submitted a proposal to RBI for takeover of bank 'R' on the basis of share exchange ratio.

The Balance Sheet details of both the banks are as follows:

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	Bank 'R' Amt. in ₹ lacs	Bank 'P' Amt. In ₹ lacs
Paid up share capital (F.V. ₹ 10 each)	140	500
Reserves & Surplus	70	5,500
Deposits	4,000	40,000
Other liabilities	<u>890</u>	<u>2,500</u>
Total Liabilities	<u>5,100</u>	<u>48,500</u>
Cash in hand & with RBI	400	2,500
Balance with other banks	-	2,000
Investments	1,100	15,000
Advances	3,500	27,000
Other Assets	<u>100</u>	<u>2,000</u>
Total Assets	<u>5,100</u>	<u>48,500</u>

It was decided to issue shares at Book Value of Bank 'P' to the shareholders of Bank 'R'. All assets and liabilities are to be taken over at Book Value.

For the swap ratio, weights assigned to different parameters are as follows:

Gross NPA	30%
CAR	20%
Market price	40%
Book value	10%

What is the swap ratio based on above weights? How many shares are to be issued?

Prepare Balance Sheet after merger.

Calculate CAR & Gross NPA % of Bank 'P' after merger.

- a. What is the swap ratio based on above weights?
- b. How many shares are to be issued?
- c. Prepare Balance Sheet after merger.
- d. Calculate CAR & Gross NPA % of Bank 'P' after merger.

Question : 6 (a)

7 Marks

A firm has an investment proposal, requiring an outlay of Rs 12 crore. The investment proposal is expected to have two years economic life with no salvage value. In year 1, there is a 0.7 probability that cash inflow after tax will be Rs 7.50 crore and 0.3 probability that cash inflow after tax will be Rs 9 crore. The probability assigned to cash inflow (after tax) for the year 2 corresponding to the year / Cash Inflow is as follows:

(Rs in crore)

The cash inflow year 1	Rs7.50	Rs9.00
The cash inflow year 2	Probability	Probability
	Rs3.60 0.10	Rs6.00 0.50
	Rs4.80 0.50	Rs7.50 0.30
	Rs6.60 0.40	Rs9.00 0.20

The firm uses a 15% discount rate for this type of investment. Required:

- i. Construct a decision tree for the proposed investment project.
- ii. Calculate the expected net present value (NPV).
- iii. What will be the best outcome and the probability of that occurrence?

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- iv. What net present value will the project yield if worst outcome is realized and What is the probability of occurrence of this NPV?
- v. Advice whether the project be accepted or not.

Note:

1. 15% discount factor 1 year 0.870; 2 year 0.756.

Carryout all calculations in ₹ crore & round off them upto 2 decimal points.

Question : 6 (b)

7 Marks

An investor has decided to invest ₹ 1,00,000 in the shares of two companies, namely, ABC and XYZ. The projections of returns from the shares of the two companies along with their probabilities are as follows:

Probability	ABC (%)	XYZ (%)
0.20	12	16
0.25	14	10
0.25	-7	28
0.30	28	-2

Required:

- e) Comment on return and risk of investment in individual shares.
- f) Compare the risk and return of these two shares with a Portfolio of these shares in equal proportions.
- g) Advise the proportion of each of the above shares to formulate a minimum risk portfolio.

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