

The WAY CA test series

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT
[SYLLABUS : MUTUAL FUNDS, BUSINESS VALUATION]

30.01.2025

TIME : 1 HR 45 MIN

TOTAL : 60 MARKS

PART A : MCQ 10 MARKS

Case Scenario

Mr. X on 1.7.2012, during the initial public offer of a Mutual Fund (MF) invested ₹1,00,000 at Face Value of ₹10. On 31.3.2013, the MF declared a dividend of 10% when Mr. X calculated that his holding period return was 115%. On 31.3.2014, MF again declared a dividend of 20%. On 31.3.2015, Mr. X redeemed all his investment which had accumulated to 11,296.11 units when his holding period return was 202.17%.

Question : 1

2 Marks

Calculate the NAVs as on 31.03.2013.

- a) Rs. 25.95
- b) Rs. 26.75
- c) Rs. 20.50
- d) Rs. 23.65

Question : 2

2 Marks

Calculate the NAVs as on 31.03.2014.

- a) Rs. 25.95
- b) Rs. 26.75
- c) Rs. 20.50
- d) Rs. 23.65

Question : 3

2 Marks

Calculate the NAVs as on 31.03.2015.

- a) Rs. 25.95
- b) Rs. 26.75

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c) Rs. 20.50

d) Rs. 23.65

Case Scenario

2 Marks

Nightingale Ltd. reported a profit of ₹77 lakhs after 30% tax for the financial year 2011-12. An analysis of the accounts revealed that the income included extraordinary items of ₹8 lakhs and an extraordinary loss of ₹10 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:

Particulars	₹ in lakhs
Sales	70
Material costs	20
Labor costs	12
Fixed costs	10

Question : 4

Calculate the value of business, given that the capitalization rate is 14%.

- a) Rs. 700 Lakhs
- b) Rs. 630 Lakhs
- c) Rs. 1000 Lakhs
- d) Rs. 820 Lakhs

Question : 5

Determine the market price per equity share, with Eagle 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.

- a) Rs. 14
- b) Rs. 17

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c) Rs. 15

d) Rs. 16

Question : 6

2 Marks

Cinderella Mutual Fund has the following assets in Scheme Rudolf at the close of business on 31st March, 2014.

Company	No. of Shares	Market Price Per Share
Nairobi Ltd.	25,000	₹20
Dakar Ltd.	35,000	₹300
Senegal Ltd.	29,000	₹380
Cairo Ltd.	40,000	₹500

The total number of units of Scheme Rudolf are 10 lacs. The Scheme Rudolf has accrued expenses of ₹2,50,000 and other liabilities of ₹2,00,000. Calculate the NAV per unit of the Scheme Rudolf.

a) 41.57

b) 42.02

c) 42.22

d) 46.52

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PART B : DESCRIPTIVE 50 MARKS

Question : 1

10 Marks

ICL is proposing to take over SVL with an objective to diversify. ICL's profit after tax (PAT) has grown @ 18 per cent per annum and SVL's PAT is grown @ 15 per cent per annum. Both the companies pay dividends regularly. The summarised Profit & Loss Account of both the companies are as follows:

Particulars	₹ in Crores	₹ in Crores
	ICL	SVL
Net Sales	4,545	1,500
PBIT	2,980	720
Interest	750	25
Provision for Tax	1,440	445
PAT	790	250
Dividends	235	125

		ICL		SVL
Fixed Assets				
Land & Building (Net)	720		190	
Plant & Machinery (Net)	900		350	
Furniture & Fixtures (Net)	30	1650		550
Current Assets		775		580
Less: Current Liabilities				
Creditors	230		130	
Provision for Tax	145		50	
Provision for dividends	30	470	50	240
Net Assets		1955		890
Paid up Share capital (Rs. 10 per share)	250		125	
Reserves and surplus	1050	1300	660	785
Borrowing		655		105
Capital employed		1955		890
Market Price Share (Rs.)		52		75

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ICL's Land & Buildings are stated at current prices. SVL's Land & Buildings are revalued three years ago. There has been an increase of 30 per cent per year in the value of Land & Buildings. SVL is expected to grow @ 18 per cent each year, after merger. ICL's Management wants to determine the premium on the shares over the current market price which can be paid on the acquisition of SVL. You are required to determine the premium using:

- i. Net Worth adjusted for the current value of Land & Buildings plus the estimated average profit after tax (PAT) for the next five years.
- ii. The dividend growth formula.
- iii. ICL will push forward which method during the course of negotiations?

Period	1	2	3	4	5
FVIF (30%, t)	1.300	1.690	2.197	2.856	3.713
FVIF (15%, t)	1.15	2.4725	3.9938	5.7424	7.7537

Question : 2

6 Marks

A valuation done of an established company by a well-known analyst has estimated a value of ₹500 lakhs, based on the expected free cash flow for next year of ₹20 lakhs and an expected growth rate of 5%. While going through the valuation procedure, you found that the analyst has made the mistake of using the book values of debt and equity in his calculation. While you do not know the book value weights, he used, you have been provided with the following information:

- (i) Company has a cost of equity of 12%,
- (ii) After tax cost of debt is 6%,
- (iii) The market value of equity is three times the book value of equity, while the market value of debt is equal to the book value of debt.

You are required to estimate the correct value of the company.

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Question : 3

5 Marks

Delta Ltd.'s current financial year's income statement reports its net income as ₹15,00,000. Delta's marginal tax rate is 40% and its interest expense for the year was ₹15,00,000. The company has ₹1,00,00,000 of invested capital, of which 60% is debt. In addition, Delta Ltd. tries to maintain a Weighted Average Cost of Capital (WACC) of 12.6%

- (i) Compute the operating income or EBIT earned by Delta Ltd. in the current year.
- (ii) What is Delta Ltd.'s Economic Value Added (EVA) for the current year?
- (iii) Delta Ltd. has 2,50,000 equity shares outstanding. According to the EVA you computed in (ii), how much can Delta pay in dividend per share before the value of the company would start to decrease? If Delta does not pay any dividends, what would you expect to happen to the value of the company?

Question : 4

6 Marks

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

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Question : 5

8 Marks

On 1st January, 2020 an open ended scheme of mutual fund had outstanding units of 300 lakhs with a NAV of ₹20.25. At the end of January 2020, it had issued 5 lakhs units at an opening NAV plus a load of 2%, adjusted for dividend equalisation. At the end of February 2020, it had repurchased 2.5 lakhs units at an opening NAV less 2% exit load adjusted for dividend equalisation. At the end of March 2020, it had distributed 70 per cent of its available income. In respect of January – March quarter, the following additional information is available:

Value appreciation of the portfolio	₹460 lakhs
Income for January	₹24 lakhs
Income for February	₹36 lakhs
Income for March	₹47 lakhs

You are required to calculate:

- (i) Income available for distribution
- (ii) Issue price at the end of January
- (iii) Repurchase price at the end of February
- (iv) Closing value of Net Assets at the end of March

Question : 6

5 Marks

M/s. Strong an AMC has floated a dividend bonus plan on 1st April, 2016 at a certain net asset value (NAV). The fund has a robust growth and has declared a bonus of 1: 5 (1 bonus unit for 5 right units held) on 30th September 2017 and a second bonus of 1 : 4 (1 bonus unit for 4 right units held) on 30th September 2019. The fund, as on 31st March 2021, has generated an average yield of 17.5%.

Mr. Optimistic has made an investment of ₹15 lakhs in the plan before the declaration of the first bonus and remain invested thereafter.

The following information is also available:

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Period	01.04.2016	30.09.2017	30.09.2019	31.03.2021
NAV (Rs.)	?	85	92	100

You are required to advice to Mr. Optimistic the opening NAV, which is required by him to calculate the capital appreciation.

Question : 7

6 Marks

The following particulars relating to Vishnu Fund Schemes:

Particulars	Value ₹ in Crores
1. Investment in Shares (at cost)	
a. Pharmaceuticals companies	79
b. Construction Industries	31
c. Service Sector Companies	56
d. IT Companies	34
e. Real Estate Companies	10
2. Investment in Bonds (Fixed Income)	
a. Listed Bonds (8000, 14% Bonds of ₹15,000 each)	12
b. Unlisted Bonds	7
3. No. of Units outstanding (crores)	4.2
4. Expenses Payable	3.5
5. Cash and Cash equivalents	1.5
6. Market expectations on listed bonds	8.842%

Particulars relating to each sector are as follows:

Sector	Index on Purchase date	Index on Valuation date
Pharmaceutical companies	260	465
Construction Industries	210	450
Service Sector Companies	275	480
IT Companies	240	495
Real Estate Companies	255	410

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The fund has incurred the following expenses:

Consultancy and Management fees	₹480 Lakhs
Office Expenses	₹150 Lakhs
Advertisement Expenses	₹38 Lakhs

You are required to calculate the following:

- (i) Net Asset Value of the fund
- (ii) Net Asset Value per unit
- (iii) If the period of consideration is 2 years, and the fund has distributed ₹3 per unit per year as cash dividend, ascertain the Net return (Annualized).
- (iv) Ascertain the Expenses ratio.

Question : 8

4 Marks

Describe Tracking error. List the reasons for it.

ALL THE BEST

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