

## The WAY CA test series

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT  
[ SYLLABUS : Advanced capital budgeting, Securitisation ]

23.02.2025

TIME : 1 HR 45 MIN

TOTAL : 60 MARKS

### PART A : MCQ 13 MARKS

**Question : 1**

**2 Marks**

ABC Ltd has the following 3 projects X,Y,Z :

	X	Y	Z
Net cash outlays (₹)	2,10,000	1,20,000	1,00,000
Project life	5 years	5 years	5 years
Annual Cash inflow (₹)	70,000	42,000	30,000
Coefficient of variation	1.2	0.8	0.4

The Company selects the risk adjusted rate of discount on the basis of the coefficient of variation:

Coefficient of Variation	Risk Adjusted Rate of Return	PV Factor 1 to 5 years at RADR
0.0	10%	3.791
0.4	12%	3.605
0.8	14%	3.433
1.2	16%	3.274
1.6	18%	3.127
2.0	22%	2.864
More than 2.0	25%	2.689

Determine the risk adjusted net present value of Project Y?

- a) Rs. 24,186
- b) Rs. 19,180
- c) Rs. 8,150
- d) Rs. 1,44,186

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### Case Scenario

The Easygoing Company Limited is considering a new project with initial investment, for a product "Survival". It is estimated that IRR of the project is 16% having an estimated life of 5 years. Financial Manager has studied that project with sensitivity analysis of NPV becoming zero and informed that annual fixed cost sensitivity is 7.8416%, whereas cost of capital (discount rate) sensitivity is 60%.

Other information available are:

Profit Volume Ratio (P/V) is 70%

Variable cost is 60 per unit

Annual Cash Inflow is 57,500

Cumulative discounting factor for 5 years

8%	9%	10%	11%	12%	13%	14%	15%	16%	17%	18%
3.993	3.890	3.791	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127

### Question : 2

2 Marks

Calculate Initial Investment of the Project

- a) Rs. 1,92,740/-
- b) Rs. 1,88,255/-
- c) Rs. 29,727/-
- d) Rs. 1,83,942/-

### Question : 3

2 Marks

Net Present Value of the Project

- a) Rs. 29,727/-
- b) Rs. 1,88,255/-

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c) Rs. 2,17,982/-

d) Rs. 1,00,000/-

**Question : 3**

**2 Mark**

Annual Fixed Cost

a) Rs. 7841.60/-

b) Rs. 1,88,255/-

c) Rs. 2,17,982/-

d) Rs. 1,00,000/-

**Question : 4**

**2 Marks**

What is a key difference between Pass-Through Certificates (PTC) and Pass-Through Structures (PTS) in terms of principal repayment?

- a) In PTC, principal is distributed pro-rata, while in PTS, bonds follow a sequential repayment structure.
- b) PTS distributes principal pro-rata, while PTC follows a sequential bond repayment.
- c) Both PTC and PTS distribute principal only at the end of the asset pool's life.
- d) PTC and PTS have identical principal repayment structures with no distinction.

**Question : 5**

**2 Marks**

If Investment proposal costs 45,00,000 and risk-free rate is 5%, calculate net present value under certainty equivalent technique.

Year	Expected cash flow (₹)	Certainty Equivalent coefficient
1	10,00,000	0.90
2	15,00,000	0.85
3	20,00,000	0.82
4	25,00,000	0.78

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Note: PVF @ 5% for four years is 0.9524, 0.9070, 0.8638, 0.8227

- a) Rs. 5,34,482/-
- b) Rs. 5,21,112/-
- c) Rs. 49,62,014/-
- d) Rs. 4,62,014/-

**Question : 6**

**1 Mark**

Out of the Following choose which of the statements are advantages of Certainty Equivalent Method:

- i. This method is simple and easy to understand and apply.
  - ii. It can easily be calculated for different risk levels applicable to different cash flows. For example, if in a particular year, a higher risk is associated with the cash flow, it can be easily adjusted and the NPV can be recalculated accordingly.
  - iii. This method subjective and vary as per each individual's estimate.
  - iv. It is often used in corporate decision making.
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- a) Statement i & iii
  - b) Statement ii & iii
  - c) Statement i & iv
  - d) Statement i & ii
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### PART B : DESCRIPTIVE 47 MARKS

**Question : 1**

**5 Marks**

A Company named Roby's cube decided to replace the existing Computer system of their organisation. Original cost of old system was 25,000 and it was installed 5 years ago. Current market value of old system is 5,000. Depreciation of the old system was charged with life of 10 years with Estimated Salvage value as Nil. Depreciation of the new system will be charged with life over 5 years. Present cost of the new system is 50,000. Estimated Salvage value of the new system is ₹ 1,000. Estimated cost savings with new system is ₹ 5,000 per year. Increase in sales with new system is assumed at 10% per year based on original total sales of 1,00,000. Company follows straight line method of depreciation. Cost of capital of the company is 10%, whereas tax rate is 30%.

Decide whether the company should replace the existing Computer system.

**Question : 2**

**8 Marks**

A machine used on a production line must be replaced at least every four years. Costs incurred to run the machine according to its age are:

	Age of the Machine (years)				
	0	1	2	3	4
Purchase price (in ₹)	60,000				
Maintenance (in ₹)		16,000	18,000	20,000	20,000
Repair (in ₹)		0	4,000	8,000	16,000
Scrap Value (in ₹)		32,000	24,000	16,000	8,000

Future replacement will be with identical machine with same cost. Revenue is unaffected by the age of the machine. The opportunity cost of capital is 15%.

Ignoring inflation and tax, determine the optimum replacement cycle.

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Note: PVF @ 15% for four years is 0.8696, 0.7561, 0.6575, 0.5718 and Show amount to the nearest rupee in calculations.

**Question : 3**

**5 Marks**

XYZ Ltd. is considering a project for which the following estimates are available:

	Rs.
Initial Cost of the project	10,00,000
Sales price per unit	60
Cost per unit	40
Sales Volume:	
Year 1	20,000 Units
Year 2	30,000 Units
Year 3	30,000 Units

Discount rate is 10% p.a.

You are required to measure the sensitivity of the project in relation to each of the following parameters such that the NPV becomes zero:

- (a) Sales price per unit
- (b) Unit cost
- (c) Sales volume
- (d) Initial outlay
- (e) Project lifetime

Note: PVF @ 10% for 3 years is 0.909091, 0.826446, 0.751315 and show amount to nearest rupee in calculations. Assume 360 days in a year.

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**Question : 4**

**5 Marks**

The Management of a multinational company TL Ltd. is engaged in construction of Infrastructure Project. A proposal to construct a Toll Road in Nepal is under consideration of the Management.

The following information is available:

The initial investment will be in purchase of equipment costing USD 250 lakhs. The economic life of the equipment is 10 years. The depreciation on the equipment will be charged on straight line method.

EBIDTA to be collected from the Toll Road is projected to be USD 33 lakhs p.a. for a period of 20 years.

To encourage investment, Nepalese government is offering a 15 year term loan of USD 150 lakhs at an interest rate of 6% per annum. The interest is to be paid annually. The loan will be repaid at the end of 15 year in one tranche.

The required rate of return for the project under all equity financing is 12% per annum.

Post tax cost of debt is 5.6% per annum.

Corporate Tax Rate is 30%. All cash Flows will be in USD.

You are required to advise the management on the viability of the proposal by using Adjusted Net Present Value method.

Given: PVIFA (12%, 10) = 5.650, PVIFA (12%, 20) = 7.469, PVIFA (8%, 15) = 8.559

Note: Make calculations in USD lakh up to 3 decimals.

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**Question : 5**

**5 Marks**

The Textile Manufacturing Company Ltd., is considering one of two mutually exclusive proposals, Projects M and N, which require cash outlays of ₹ 8,50,000 and 8,25,000 respectively. The certainty-equivalent (C.E) approach is used in incorporating risk in capital budgeting decisions. The current yield on government bonds is 6% and this is used as the risk-free rate. The expected net cash flows and their certainty equivalents are as follows:

Project M			Project N	
Year end	Cash flow (Rs.)	C.E.	Cash flow (Rs.)	C.E.
1	4,50,000	0.8	4,50,000	0.9
2	5,00,000	0.7	4,50,000	0.8
3	5,00,000	0.5	5,00,000	0.7

Required:

- Which project should be accepted?
- If risk adjusted discount rate method is used, which project would be appraised with a higher rate and why?

**Question : 6**

**4 Marks**

“While pricing the securitized instruments, it is important that it should be acceptable to both originators as well as to the investors”. Explain.

**Question : 7**

**5 Marks**

KLM Ltd. requires 15,00,000 for a new project. Useful life of project is 3 years. Salvage value is Nil. Depreciation is ₹ 5,00,000 p.a.

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Given below are projected revenues and costs (excluding depreciation) ignoring inflation:

Year	1	2	3
Revenue (Rs.)	10,00,000	13,00,000	14,00,000
Costs in (Rs.)	5,00,000	6,00,000	6,50,000

Applicable tax rate is 35%. Assume cost of capital to be 14% (including inflation premium). The inflation rates for revenues and costs are as under:

Year	Revenues	Costs
1	9%	10%
2	8%	9%
3	6%	7%

You are required to calculate net present value of the project.

Note: Show amount to the nearest rupee in calculations.

**Question : 8**

**5 Marks**

Suppose MIS Ltd. is considering installation of solar electricity generating plant for light the staff quarters. The plant shall cost 2.50 crore and shall lead to saving in electricity expenses at the current tariff by 21 lakh per year forever.

However, after one year with change in Government in state, the rate of electricity is subject to change. Accordingly, the saving in electricity can be of 12 lakh or 35 lakh per year and forever.

Assuming WACC of MIS Ltd. is 10% and risk-free rate of rate of return is 8%.

Decide whether MIS Ltd. should accept the project today or wait and see after one year.

Note: Make calculations in crore and upto 3 decimal points.

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**Question : 9**

**5 Marks**

L & R Limited wishes to develop new virus-cleaner software. The cost of the pilot project would be Rs. 2,40,000. Presently, the chances of the product being successfully launched on a commercial scale are rated at 50%. In case it does succeed, L&R can invest a sum of 20 lacs to market the product. Such an effort can generate perpetually, an annual net after tax cash income of 4 lacs. Even if the commercial launch fails, they can make investment of smaller amount of 12 lacs with hope of gaining perpetually a sum of 1 lac. Evaluate the proposal, adopting decision tree approach. The discount rate is 10%.

Note: Make calculations in lakh and up to 2 decimal points.

the WAY

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