

The WAY CA test series – SEPT 2025

CA FINAL

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

05.06.2025

TIME : 2 HRS

Maximum Marks : 70

All Question Papers are uploaded Here 

https://t.me/catestseries_thewaychannel

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.

PART I

14 Marks

Case Study - 1

The data given below relates to convertible bond of X Ltd.:

Face value	₹450
No. of shares per bond	25
Coupon rate	15%
Market price per share	₹20
Market price of convertible bond	₹550
Straight value of bond	₹400

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. The percentage of downside risk based on market price of convertible bonds is

- a) 10%
- b) 27.27%
- c) 18.18%
- d) 11.11%

2. The conversion premium is

- a) 10%
- b) 27.27%
- c) 18.18%
- d) 11.11%

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3. The conversion parity price of the stock is

- a) Rs 25
- b) Rs 20
- c) Rs 22
- d) Rs 24

Case Study - 2

Mr. Y has invested in the three mutual funds (MF) as per the following details :

Particulars	MF 'X'	MF 'Y'	MF 'Z'
Amount of Investment (Rs)	4,00,000	8,00,000	4,00,000
Net Assets Value (NAV) at the time of purchase (Rs)	10.30	10.10	10
Dividend Received up to 31.03.2023 (Rs)	9,000	0	6,000
NAV as on 31.03.2023 (Rs)	10.35	10	10.30
Effective Yield per annum as on 31.03.2023 (percent)	9.66	-11.66	24.15

Assume 1 Year = 365 days

On the basis of the information provided above, you are required to choose the most appropriate answer to the below mentioned questions 4 to 7

(4 × 2 = 8)

4. Total NAV of MF 'Y' as on 31.03.2023 would be approximately

- a) Rs 4,01,941.73
- b) Rs 4,12,000.00

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- c) Rs 7,92,079.21
- d) Rs 82,500.00

5. Total Yield of MF 'X' in terms of ` would be approximately

- a) Rs 10,941.75
- b) Rs 7,920.80
- c) Rs 18,000.00
- d) Rs 12,450.45

6. Number of days for which MF 'X' is held would be approximately.....

- a) 31 Days
- b) 68 Days
- c) 103 Days
- d) 85 Days

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7. Number of days for which MF 'Y' is held would be.....

- a) 31 Days
- b) 68 Days
- c) 103 Days
- d) 85 Days

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PART – II

56 Marks

Question : 1(a)

6 Marks

The current EPS of M/s VEE Ltd. is ₹4 The company has shown an extraordinary growth of 40% in its earnings in the last few year. This high growth rate is likely to continue for the next 5 years after which growth rate in earnings will decline from 40% to 10% during the next 5 years and remain stable at 10% thereafter. The decline in the growth rate during the five year transition period will be equal and linear. Currently, the company' s pay out ratio is 10%. It is likely to remain the same for the next five years and from the beginning of the sixth year till the end of the 10th year, the pay out will linearly increase and stabilize at 50% at the end of the 10th year. The post tax cost of capital is 17% and the PV factors are given below:

Years	1	2	3	4	5	6	7	8	9	10
PVIF @ 17%	0.855	0.731	0.625	0.534	0.456	0.390	0.333	0.285	0.244	0.209

You are required to calculate the intrinsic value of the company's stock based on expected dividend. If the current market price of the stock is ₹125, suggest if it is advisable for the investor to invest in the company's stock or not.

Question : 1(b)

4 Marks

On 1-4-2012 ABC Mutual Fund issued 20 lakh units at ₹10 per unit. Relevant initial expenses involved were ₹12 lakhs. It invested the fund so raised in capital market instruments to build a portfolio of ₹ 185 lakhs. During the

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month of April 2012, it disposed off some of the instruments costing ₹60 lakhs for ₹63 lakhs and used the proceeds in purchasing securities for ₹56 lakhs. Fund management expenses for the month of April 2012 was ₹8 lakhs of which 10% was in arrears. In April 2012 the fund earned dividends amounting to ₹2 lakhs and it distributed 80% of the realized earnings. On 30-4-2012 the market value of the portfolio was ₹198 lakhs.

Mr. Akash, an investor, subscribed to 100 units on 1-4-2012 and disposed off the same at closing NAV on 30-4-2012. What was his annual rate of earning?

Question : 1(c)

4 Marks

SAM Ltd. has just paid a dividend of ₹2 per share and it is expected to grow @ 6% p.a. After paying dividend, the Board declared to take up a project by retaining the next three annual dividends. It is expected that this project is of same risk as the existing projects. The results of this project will start coming from the 4th year onward from now. The dividends will then be ₹2.50 per share and will grow @ 7% p.a.

An investor has 1,000 shares in SAM Ltd. and wants a receipt of at least ₹2,000 p.a. from this investment.

Required:

- (i) EVALUATE whether the market value of the share is affected by the decision of the Board.
- (ii) RECOMMEND how the investor can maintain his target receipt from the investment for first 3 years and improved income thereafter, given that the cost of capital of the firm is 8%.

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Question : 2(a)

5 Marks

Bank A enters into a Repo for 14 days with Bank B in 12% GOI Bonds 2017 at a rate of 5.25% for Rs.5 Crore. Assuming that the clean price be 99.42, initial margin be 2% and days of accrued interest be 292, you are required to determine:

- a) Dirty Price
- b) Start Proceeds (First Leg)
- c) Repayment at Maturity (Second Leg)

Note: Number of days in a year is 360.

Question : 2(b)

5 Marks

ABC Limited's shares are currently selling at ₹13 per share. There are 10,00,000 shares outstanding. The firm is planning to raise ₹20 lakhs to Finance a new project.

- (i) Calculate the ex-right price of shares and the value of a right, if the firm offers one right share for every two shares held.
- (ii) Calculate the ex-right price of shares and the value of a right, if the firm offers one right share for every four shares held.
- (iii) Analyse how does the shareholders' wealth change from (i) to (ii) above and right issue increases shareholders' wealth?

Question : 2(b)

4 Marks

ANP Plan, a hedge fund currently has assets of ₹20 crore. CA. X, the manager of fund charges fee of 0.10% of portfolio asset. In addition to it he charges incentive fee of 2%. The incentive will be linked to gross return each year in excess of the portfolio maximum value since the inception of fund. The maximum value the fund achieved so far since inception of fund about one and half year ago was ₹21 crores.

You are required to compute the fee payable to CA. X, if return on the fund this year turns out to be

- a) 29%
- b) 4.5%
- c) -1.8%

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Question : 3(a)

7 Marks

Tangent Ltd. is considering calling ₹3crores of 30 years, ₹1,000 bond issued 5 years ago with a coupon interest rate of 14 per cent. The bonds have a call price of ₹1,150 and had initially collected proceeds of ₹2.91crores since a discount of ₹30 per bond was offered. The initial floating cost was ₹3,90,000. The Company intends to sell ₹3crores of 12 per cent coupon rate, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value of ₹1,000. The estimated floatation cost is ₹4,25,000. The company is paying 40% tax and its after tax cost of debt is 8 per cent. As the new bonds must first be sold and then their proceeds to be used to retire the old bonds, the company expects a two months period of overlapping

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interest during which interest must be paid on both the old and the new bonds. You are required to evaluate the bond retiring decision. [PVIFA 8%, 25 = 10.675]

Question : 3(b)

7 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

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Question : 4(a)

7 Marks

The following data are available for three bonds A, B and C. These bonds are used by a bond portfolio manager to fund an outflow scheduled in 6 years. Current yield is 9%. All bonds have face value of ₹100 each and will be redeemed at par. Interest is payable annually.

Bond	Maturity (Years)	Coupon rate
A	10	10%
B	8	11%
C	5	9%

- Calculate the duration of each bond.
- The bond portfolio manager has been asked to keep 45% of the portfolio money in Bond A. Calculate the percentage amount to be invested in bonds B and C that need to be purchased to immunize the portfolio.
- After the portfolio has been formulated, an interest rate change occurs, increasing the yield to 11%. The new duration of these bonds are: Bond A = 7.15 Years, Bond B = 6.03 Years and Bond C = 4.27 years. Is the portfolio still immunized? Why or why not?
- Determine the new percentage of B and C bonds that are needed to immunize the portfolio. Bond A remaining at 45% of the portfolio

Present values be used as follows:

Present Values	t_1	t_2	t_3	t_4	t_5	t_6	t_7	t_8	t_9	t_{10}
$PVIF_{0.09,t}$	0.917	0.842	0.772	0.708	0.650	0.596	0.547	0.502	0.460	0.4224

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Question : 4(b)

7 Marks

M/S. Corpus an AMC, on 1.04.2015 has floated two schemes viz. Dividend Plan and Bonus Plan. Mr. X, an investor has invested in both the schemes. The following details (except the issue price) are available:

Date	Dividend (%)	Bonus Ratio	NAV	
			Dividend Plan	Bonus Plan
1.04.2015			?	?
31.12.2016		1: 4	47	40
31.03.2017	12		48	42
31.03.2018	10		50	39
31.12.2018		1: 5	46	43
31.03.2019	15		45	42
31.03.2020	-	-	49	44

Additional details

Investment (₹)	₹ 9,20,000	₹ 10,00,000
Average Profit (₹)	₹ 27,748.60	
Average Yield (%)		6.40

You are required to calculate the issue price of both the schemes as on 1.04.2015.

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