

The WAY CA test series – SEPT 2025

CA FINAL

P2: ADVANCED FINANCIAL MANAGEMENT
[SYLLABUS : FOREX, RISK MANAGEMENT]

21.07.2025

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.

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PART I

14 Marks

Case Study – 1

An importer booked a forward contract with his bank on 10th April for USD 2,00,000 due on 10th June @ Rs. 64.4000. The bank covered its position in the market at Rs. 64.2800.

The exchange rates for dollar in the interbank market on 10th June and 13th June were:

Particulars	10th June	13th June
Spot USD 1=	₹ 63.8000/8200	₹ 63.6800/7200
Spot/June	₹ 63.9200/9500	₹ 63.8000/8500
July	₹ 64.0500/0900	₹ 63.9300/9900
August	₹ 64.3000/3500	₹ 64.1800/2500
September	₹ 64.6000/6600	₹ 64.4800/5600

Exchange Margin 0.10% and interest on outlay of funds @ 12%. The importer requested on 14th June for extension of contract with due date on 10th August.

Rates to be rounded off to 4 decimals in multiples of 0.0025.

On 10th June, Bank Swaps by selling spot and buying one month forward.

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. Calculate the cancellation rate.

- a) a) Rs. 63.6175
- b) b) Rs. 64.6175
- c) c) Rs. 65.6175
- d) d) Rs. 63.8175

2. Calculate the amount payable on \$ 2,00,000

- a) a) \$ 1,66,500
- b) b) \$ 1,65,500
- c) c) \$ 1,56,500
- d) d) \$ 1,57,500

3. Calculate the Swap loss.

- a) a) ₹ 60,000
- b) b) ₹ 20,000
- c) c) ₹ 30,000.
- d) d) ₹ 50,000

4. Calculate Interest on outlay of funds, if any.

- a) ₹ 96,000
- b) ₹ 96
- c) ₹ 9,600
- d) ₹ 960

5. Calculate New contract rate

- a) ₹ 65.3150
- b) ₹ 66.3150
- c) ₹ 63.3150

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d) ₹ 64.3150

6. An importer customer of your bank wishes to book a forward contract with your bank on 3rd September for sale to him of SGD 5,00,000 to be delivered on 30th October.

The spot rates on 3rd September are USD 49.3700/3800 and USD/SGD 1.7058/68. The swap points are:

USD / ₹		USD / SGD	
Spot/September	0300 / 0400	1st month forward	48 / 49
Spot/October	1100 / 1300	2nd month forward	96 / 97
Spot/November	1900 / 2200	3rd month forward	138 / 140
Spot/December	2700 / 3100		
Spot/January	3500 / 4000		

Calculate the rate to be quoted to the importer by assuming an exchange margin of 5 paisa (1 × 2 = 2)

- a) ₹ 28.8624
- b) ₹ 28.8912
- c) ₹ 85.0152
- d) ₹ 56.6768

7. On January 28, 2013 an importer customer requested a Bank to remit Singapore Dollar (SGD) 2,500,000 under an irrevocable Letter of Credit (LC). However, due to unavoidable factors, the Bank could effect the remittances only on February 4, 2013. The inter-bank market rates were as follows:

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	January 28, 2013	February 4, 2013
US \$ 1	₹ 45.85/45.90	₹ 45.91/45.97
GBP £ 1	US\$ 1.7840/1.7850	US\$ 1.7765/1.7775
GBP £ 1	SGD 3.1575/3.1590	SGD 3.1380/3.1390

The Bank wishes to retain an exchange margin of 0.125%

How much does the customer stand to gain or lose due to the delay?

(1 × 2 = 2)

- a) ₹ 2,29,750
- b) - ₹ 2,29,750
- c) ₹ 2,28,250
- d) - ₹ 2,28,250

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PART – II

56 Marks

Question : 1(a)

6 Marks

Mr. Bull is a rational risk taker. He takes his position in a single stock for 4 days in a week. He does not take a position on Friday to avoid weekend effect and takes position only for four days in a week i.e. Monday to Thursday. He transfers the amount on Monday morning and withdraws the balance on Friday morning. He desires to make a maximum investment where Value At Risk (VAR) should not exceed the balance lying in his bank account. The position by his manager, as per standing instructions, is taken on the free balance lying in the bank account in the morning on each Monday.

On Monday morning (before opening of the capital market) he has transferred an amount of ₹11 Crore to his bank account. A fixed deposit also matured on this Monday. The maturity amount of ₹63,42,560 was also credited to his account by the bank in the morning of the Monday. However, Mr. Bull received the intimation of the same in the evening. The bank needs a minimum balance of ₹1,000 all the time. The value of Z score, at the required confidence level of 99 percent is 2.33.

The other information with respect to stocks X and Y, which are under consideration for this week, is as under:

X		Y	
Return	Probability	Return	Probability
6	0.10	4	0.10
7	0.25	6	0.20
8	0.30	8	0.40
9	0.25	10	0.20
10	0.10	12	0.10

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You are required to recommend a single stock, where maximum investment can be made.

Question : 1(b)

4 Marks

Explain the main financial risk can be viewed from different perspective.

Question : 1(c)

4 Marks

List out the areas where the concept of Value at risk (VAR) can be applied?

Question : 2(a)

5 Marks

Suppose you are a treasurer of XYZ plc in the UK. XYZ have two overseas subsidiaries, one is based in Amsterdam and another in Switzerland. The surplus position of funds in hand is as follows which it does not need for the next three months but will be needed at the end of that period (91 days).

Holding Company	£150,000
Swiss Subsidiary	CHF 1,996,154
Dutch Subsidiary	€1,450,000

Exchange Rate as on date are as follows:

Spot Rate (€)	£0.6858 - 0.6869
91-day Pts	0.0037 0.0040
Spot Rate (£)	CHF 2.3295 - 2.3326

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91-day Pts	0.0242	0.0228
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91-Day Interest rates on p.a. basis on the Deposits in Money Market are as follows:

Amount of Currency	£	€	CHF
0 – 200,000	1.00	0.25	Nil
200,001 – 1,000,000	2.00	1.50	0.25
1,000,001 – 2,000,000	4.00	2.00	0.50
Over 2,000,000	5.38	3.00	1.00

You have been approached by your banker wherein the above-mentioned surplus was lying, requesting you to swap the surplus lying with other two subsidiaries and place them in deposit with them.

Determine the minimum interest rate per annum (up to 3 decimal points) that should be offered by the bank to your organization so that your organization is ready to undertake such swap arrangement.

Note: Consider 360 days a year.

Question : 2(b)

5 Marks

The Treasury desk of a global bank incorporated in UK wants to invest GBP 200 million on 1st January, 2019 for a period of 6 months and has the following options:

(1) The Equity Trading desk in Japan wants to invest the entire GBP 200 million in high dividend yielding Japanese securities that would earn a

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dividend income of JPY 1,182 million. The dividends are declared and paid on 29th June. Post dividend, the securities are expected to quote at a 2% discount. The desk also plans to earn JPY 10 million on a stock borrow lending activity because of this investment. The securities are to be sold on June 29 with a T+1 settlement and the amount remitted back to the Treasury in London.

(2) The Fixed Income desk of US proposed to invest the amount in 6-month G-Secs that provides a return of 5% p.a.

The exchange rates are as follows:

Currency Pair	1 Jan 2019 (Spot)	30 Jun 2019 (Forward)
GBP – JPY	148.0002	150.0000
GBP – USD	1.28000	1.30331

As a treasurer, advise the bank on the best investment option. What would be your decision from a risk perspective? You may ignore taxation.

Question : 2(c)

4 Marks

M/s. A Ltd. is planning to import equipment from Japan at a cost of 3,400 lakh yens. The company may avail loans at 18% p.a. interest with quarterly rests with which it can import the said equipment. The company has also an offer from Osaka branch of an Indian bank extending credit of 180 days at 2% p.a. against opening of an irrevocable letter of credit (L /C).

Additional information:

Present Exchange Rate

₹100 = 340 yen

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180 days forward rate ₹100 = 345 yen

Commission charges for L/C at 2% per 12 months.

Advise whether the company should accept the offer

Question : 3(a)

8 Marks

Columbus Surgicals Inc. is based in US, has recently imported surgical raw materials from the UK and has been invoiced for £480,000, payable in 3 months. It has also exported surgical goods to India and France.

The Indian customer has been invoiced for ₹138,000, payable in 3 months, and the French customer has been invoiced for €590,000, payable in 4 months.

Current spot and forward rates are as follows:

£ / US\$	
Spot	0.9830 – 0.9850
Three months forward:	0.9520 – 0.9545
US\$ / €	
Spot	1.8890 – 1.8920
Three months forward:	1.9510 – 1.9540
Current money market rates are as follows:	
UK:	10.0% - 12.0% p.a.
France	14.0% - 16.0% p.a.
USA	11.5% - 13.0% p.a.

You as Treasury Manager are required to show how the company can hedge its

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foreign exchange exposure using Forward markets and Money markets hedge and suggest which the best hedging technique is.

Question : 3(b)

6 Marks

XYZ Ltd. has imported goods to the extent of US\$ 8 Million. The payment terms are as under:

- (1) 1% discount if full amount is paid immediately or
- (2) 60 days interest free credit. However, in case of a further delay up to 30 days, interest at the rate of 8% p.a. will be charged for additional days after 60 days. M/s XYZ Ltd. has ₹25 Lakh available and for remaining it has an offer from bank for a loan up to 90 days @ 9.0% p.a.

The quotes for foreign exchange are as follows:

Spot Rate INR/ US\$ (buying)	₹66.98
60 days Forward Rate INR/ US\$ (buying)	₹67.16
90 days Forward Rate INR/ US\$ (buying)	₹68.03

Advise which one of the following options would be better for XYZ Ltd.

- i. Pay immediately after utilizing cash available and for balance amount take 90 days loan from bank.
- ii. Pay the supplier on 60th day and avail bank's loan (after utilizing cash) for 30 days.
- iii. Avail supplier offer of 90 days credit and utilize cash available.

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Further presume that the cash available with XYZ Ltd. will fetch a return of 4% p.a. in India till it is utilized. Assume year has 360 days. Ignore Taxation. Compute your working up to four decimals and cash flows in ₹ in Crore.

Question : 4(a)

6 Marks

Sun Limited, an Indian company will need \$5,00,000 in 90 days. In this connection, following information is given below: Spot Rate - \$1 = ₹71 90 days forward rate of \$1 as of today = ₹73 Interest Rates are as follows:

Particulars	US	India
90 days Deposit Rate	2.50%	4.00%
90 days Borrowing Rate	4.00%	6.00%

A call option on \$ that expires in 90 days has an exercise price of ₹74 and a premium of Re. 0.10. Sun Limited has forecasted the spot rates for 90 days as below:

Future Rate	Probability
₹72.50	25%
₹73.00	50%
₹74.50	25%

Which of the following strategies would be the most preferable to Sun Limited:

- i. A Forward Contract;
- ii. A Money Market hedge;

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iii. An Option Contract;

iv. No Hedging.

Show your calculations in each case

Question : 4(b)

8 Marks

M/s Omega Electronics Ltd. exports air conditioners to Germany by importing all the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit. The cost of imported components is S\$ 800 per unit. The fixed cost and other variables cost per unit are ₹1,000 and ₹1,500 respectively. The cash flows in foreign currencies are due in six months. The current exchange rates are as follows:

₹/Euro	51.50/55
₹/S\$	27.20/25

After six months the exchange rates turn out as follows:

₹/Euro	52.00/05
₹/S\$	27.70/75

(1) You are required to calculate loss/gain due to transaction exposure.

(2) Based on the following additional information calculate the loss/gain due to transaction and operating exposure if the contracted price of air conditioners is ₹25,000:

(i) the current exchange rate changes to

₹/Euro	51.75/80
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₹/S\$	27.10/15
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- (ii) Price elasticity of demand is estimated to be 1.5
- (iii) Payments and receipts are to be settled at the end of six months.

ALL THE BEST

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