The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Final Examination

Group No 1 Paper No 2

Subject Advanced Financial Management

Number of Answer Books used : Main + 2 additional sheets

Date Seal 04 MAY 2026

PUT THE SEAL WITH IN THIS CIRCLE

For use by ICAI only

850591

Paper Code: AZK1

MCQ Booklet Serial No. 2259483

Paper No. 2

Level of Exam: Final

Foundation ① Intermediate ② Final

MCQ Answers

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

[redacted]ATE

[redacted] the cover
[redacted] the OMR portion
[redacted]e appropriate space at the
[redacted] and affix the same on box provided
[redacted] Roll number written in numbers, words and
[redacted]mation wrongly, Institute will not take any
[redacted] a fresh page and question number prominently written at the
[redacted] number should be distinctly written in the margin.
[redacted]uld be fully completed in one page or in a consecutive set of pages,
[redacted]her than the space provided for the purpose or writing distinguishing mark,
[redacted]sus", "786", etc., will tantamount to adoption of "unfair means"
[redacted]nswer book to the invigilator take care to score out (X) blank pages, if any, that you

Illustration for Filling the MCQ Booklet Serial No.

[redacted]RUCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

[redacted]y H.B. Pencil to Darken the appropriate Circle.
[redacted]e and darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
[redacted]n case any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
3. Please darken the complete circle.
4. If you want to change your Answer, erase the darkened circle completely and make a fresh mark.
5. Please do NOT make any stray marks on the OMR cover page.
6. Rough work must NOT be done on the OMR cover page.
7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD WRONG METHOD

Q. No.	To be ticked ✓ by the candidate against the Questions answered (Descriptive Type)		
1		8	
2		9	
3		10	
4		11	
5		12	
6		13	
7		14	
Total		Total	

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

ICAI 03

DO NOT WRITE ANYTHING HERE

Answer 2
(A).

(i).

Calculation of Required/Equilibrium Return of Security

Security X.
$RF + B_1 FRP_1 + B_2 FRP_2$

RF = Risk free
$B_1 \rightarrow$ Sensitivity Beta factor 1
$B_2 \rightarrow$ Beta factor 2
$FRP_1 \rightarrow$ Factor Risk Premium 1
$FRP_2 \rightarrow$ Factor Risk Premium 2.

Security X.

$6\% + 1.2(4) + 0.5(5)$.
$\Rightarrow$. ~~[illegible]~~ 13.30%

Security Y.

$6\% + 0.8(4) + 1.4(5)$
$\Rightarrow$ 16.20%.

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

04

As Per Jensen's Alpha.

Expected Return > Required → undervalued
Expected < Required → overvalued
→ Expected = Required ⇒ Correctly Priced.

Thereby.

Security X.

14% 713.3% [Not Correctly Priced]

Security Y

16% < 16.20% [Not Correctly Priced].

2aStep1
2 Marks

(ii).

Portfolio Sensitivity.

1 $1.4 = 1.2(W_A) + 0.8(W_B)$
(2) $0.05 = 0.5(W_A) + 1.4(W_B)$.

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

05

(80).

~~$0.7 = 0.6(WA) + 0.4 WB$~~
~~$0.6 = 0.6 WA + 1.68 WB$~~
~~$0.1 = -1.28 WB$~~
~~$WB = \frac{0.1}{1.28}$~~
~~$WB \Rightarrow -0.0781$~~
~~$WA \Rightarrow 1.2187$~~

$0.7 = 0.6 WA + 0.4 WB$
$0.06 = 0.6 WA + 1.68 WB$

$0.64 = -1.28 WB$

$WB = \boxed{-0.5}$
$WA = \boxed{1.5}$

Invested in (A) = $100,000 \times 1.5 = \boxed{1,50,000}$

Short sell (B) = $100,000 \times 0.5 =$ 50,000
(Short sell)

2a 6 Marks
2 14 Marks
2aStep2 4 Marks

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

06

Answer 2

(b) (i).

Option	Type	ITM/ATM/OTM
A	Call	ITM
B	Call	ATM
C	Call	OTM
D	Put	OTM
E	Put	ATM
F.	Put.	ITM.

Calculation of Intrinsic / Time Value Component.

	Intrinsic Value.	Time Value.	
A.	80	50	= 130
B.	0	85	
C.	-	45.	
D	-80	40	
E	-	95	
F.	80	75	

2bStep1
2 Marks

ICAI 07

(Market Price)
2150

2,000

1850.

Strike Price.

1920.

Calculation of Probability.

$$\frac{2150x + 1850(1-x)}{1.015} = 2000$$

$$2150x + 1850 - 1850x = 2030.$$

$$300x = 180$$

$$x = 60\%.$$

$$1-x = 40\%.$$

% Price moving up → 60%.
% of Price moving down ⇒ 40%.

The Institute of Chartered Accountants of India

Code: FN2AF850591 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 27

08

(ii).
Firstly if. Price after 3 months is,
2000 + 150 = $\boxed{2,150}$ Then -

Option			Net Gain/(Loss)
A.	Call	Exercise	₹100 × 100 = 10,000
B.	Call	Exercise	₹65 × 100 = 6500
C	Call	Exercise	₹25 × 100 = 2500
D	Put	Not	(40) × 100 = (4000)
E	Put	Not	(₹95) × 100 = (9500)
F	Put.	Not	(₹155) × 100 = (15500)

If Price decrease by 150 i.e. 2000 - 150
= 1850.

Option			Net Gain/(Loss).
A	Call	Not	130 × 100 = (13000) Loss
B	Call	Not	85 × 100 = (8500) Loss
C	Call	Not	45 × 100 = (4500) Loss
D	Put	Exercise	30 × 100 = ₹3000 gain
E	Put	Exercise	55 × 100 = 5500
F.	Put.	Exercise.	75 × 100 = 75[illegible]

2bStep2
2 Marks

For Call when the ~~Strike~~ share Price is above the Strike Price then option is exercised & Vice ~~Strike~~ : ~~Share~~, vice versa for Put.

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

ICAI

09

~~Short Price / Expiry Price~~

Expiry Price − Strike Price − Premium.
⇒ Gain for call & Put when exercised.

2b
4 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

10

Answer 2
(C).

(i) False.

In early stage startup it would not be appropriate to use DCF model on historical earing, as ~~at~~ there would be very less & more volatile data to assess.
Rather, some future oriented technique or Asset Based can be used.

(ii). True.

Venture capitalist do staged funding through which they reduce their risk.

(iii) True.

As in Bootstrapping ~~A~~ individual Deploy his own money & doesn't borrow from outside which does not dilute his right.

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

11

DO NOT WRITE ANYTHING HERE

(iv). False.

Angel Investor generally invest at earlier initial stage & they are very easy on Business, does not demand strong control right.
Rather Venture capitalist invest later & demand control.

2cStep1
4 Marks

2c
4 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

Answers
(A).

3aStep1
0 Marks

3aStep2
0 Marks

3aStep3
0 Marks

3a
0 Marks

3
2 Marks

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

ICAI 13

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

Answer 3
(B).
Inventor
₹12,00,000

60%   40%
Dividend Plan   Bonus Plan

7,20,000 . ← Investment → 4,80,000

Issued Price = NAV + Entry Load.
= 48 + 2%.
= ₹ 48.96 for Both..

units . → Dividend Plan.

$\frac{7,20,000}{48.96}$ = 14,705.88 units.

Bonus Plan.

$\frac{4,80,000}{48.96}$ = 9,803.92 units.

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

ICAI 15

Calculation for Dividend Plan.

Dividend Received. = 14,705.88 × 5
(on 30 September) = ₹73529.4

No. of units Received as Dividend Reinvested @ ₹51, thereby making issue Price (including of entry load too) 51 + 2%
= $\boxed{₹52.02}$.

$\frac{73529.4}{52.02}$ = 1413.48 units.

Total units ⇒ 14705.88 + 1413.48
= 16,119.36 units

Closing Value → 16,119.36 × 54
= ₹870,445.44

~~(No exit load as there is no Redemption)~~.

Value (after Exit Load) = 8,70,445.44 − 1%
= $\boxed{₹8,61,740.99}$.

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

16

DO NOT WRITE ANYTHING HERE

Bonus Plan:
units in issue = 9803.92

Total after Bonus = 9803.92 × 5/4

= 12,254.9 units

Closing value = ₹63 7,254.8

Value after Exit load 1%:
→ $\boxed{₹6,30,882.25}$

Returns.

Dividend Plan.
Return → ₹8,61,740.99 − ₹7,20,000 = $\boxed{1,41,740.99}$

In % Terms = $\boxed{19.69\%}$.

Bonus Plan. → 6,30,882.25 − 4,80,000
= 150,882.25

In % → $\boxed{31.43\%}$

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

DO NOT WRITE ANYTHING HERE

Buy Plan Provide higher effective Return.

Note.

→ Assumed that Dividend Received is Reinvested at issued Price. (i.e. Including of NAV with Entry load.

→ Also Exit load is also used, by considering if the Investor Redeems at year end, then what Amount will he get.

3bStep1
2 Marks

3b
2 Marks

18

Answers
(C).

The Statement given above is true,

as the transfer of NPA will improve the Balance Sheet however, regulatory compliance & valuation of securities would be a challenge

As NPA would be of no or low value so securitized asset would also have no, or low value licences.

3cStep1
0 Marks

3c
0 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

19

Answer 5
(A).

(₹ in crore).

	Year 1	Year 2.
Net Income.	225	281.25.
less: Net Capex. 40.7.	(168)	(196)
FCFE.	57	85.25.

Calculation of Ke (Required Rate).

Ke = Rf + B(Rm - Rf).
= 6 + 1.2(5)
= $\boxed{12\cdot1}$.

Ke = Cost of Equity
Rf => Risk free r%.
B -> Comp. Beta.
Rm - Rf => EQ. Risk Premium. (ERP).

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

20

Present Value of Stage 1 .

FCFE	PV factor	Present Value
57	0.893	
85.25	0.797 .	

(i) (i) → . ≤ 118.84525 crore.

118.85 crore (Rl off)

(ii) .

Cmp (Per Share) = 240

Total Valuation = 240 × 60 cr

= ₹ 14,400 crore .

Considering Net income year 3 onward (x) .

Thereby , Net Investment will be 0.2x.

& Equity Portion would be 0.2x × 0.7

= 0.14x.

~~Thereby = Permitted value Cashflow Year 3 .~~

~~Net Income x~~

~~− Investment (Share of Equity) (0.14x)~~

~~0.86x~~

The Institute of Chartered Accountants of India

Code: FN2AF850591 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 27

21

$\frac{0.86x}{ke - g} * 0.797$.

Net Income. 281.25(1+g)
Investment.
(20%. (ers) ((39.375 (1+g)).
281.25(1+g) *0.7).

$\frac{281.25 + 281.25g}{* 20\% * 0.7}$.

FCFE3 241.875 (1+g).

5aStep1 3 Marks

$= 118.85cr + \frac{241.88(1+g)}{0.12 - g} * 0.797$

14281.15 * (0.12 - g) = 241.88 + 241.88 g.

1713.738 − 14281.15g = 241.88 + 241.88g.

1471.858 = 14523.03g.

Thereby g = $\boxed{10.13\%}$.(Approx)

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

22

1[281.15 * (0.12 - g)] = 1920778

$\boxed{g = 10.65\%}$ (approx).

5aStep2
1 Marks

5a
4 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

Answer 5
(B).

5bStep2
0 Marks

5bStep1
0 Marks

5b
0 Marks

5
4 Marks

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

24

Answer 5
(C)

→ Transaction Risk are the Risk which are real risk, which generally cannot be mitigated.

→ Whereas, Translation exposure is related currency risk which can be mitigated or reduce, by entering into various contracts such as Forward, future, option.

5cStep1
0 Marks

~~Transaction exposure~~

5c
0 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

25

DO NOT WRITE ANYTHING HERE

Answer Q 1
(A) .

1aStep2 0 Marks

1aStep1 0 Marks

1a 0 Marks

1 2 Marks

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

26

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

DO NOT WRITE ANYTHING HERE

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

The Institute of Chartered Accountants of India

Code: FN2AF850591

Subject : 02 Advanced Financial Management

Total Marks: 70

Marks Obtained : 27

28

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

2850591-01

Addl. Book No. 1

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

DO NOT WRITE ANYTHING HERE

Answer 1
(B).
(i).

Intrinsic Value.

$D_0 = 40$.
$D_1 = 40 + 13.2\% = 45.28$.
$D_2 = 45.28 + 11.4\% = 50.44$
$D_3 = 50.44 + 9.6\% = 55.28$
$D_4 = 55.28 + 7.8\% = 59.59$.
$D_5 = 59.59 + 6\% = 63.17$.

$D_6 = 63.17 + 6\% = \frac{66.96}{0.12 - 0.06} = ₹1116$ Rs.

1bStep1 1 Marks

pv factor @ 12%.

Year 1	45.28
2	50.44
3	55.28
4	59.59
5	63.17 + 1116 = 1179.17

Cmp (FV) 760.15

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

2

(ii) Given ₹850, stock is overpriced by $\boxed{11.82\%}$

Note: Current Rate is assumed 15% so
thereby $15 - 6 = \frac{9}{5} = 1.8\%$
reduction linearly.

1b
1 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

3

2850591-02

Answer 1
(c).

MT Ltd. should not Borrow any amount from any Bank now, as his maxm Permissible limit of 2.5:1 is already reached, thereby, it should not rely on external funding.

However, the co. should go for SGR (sustainable growth rate) i.e. its internal fund amount to be reinvested again & again without paying out any dividend, & retain whole of the profit.

→ The company should not deliver any dividend out of equity or we can say it should pay less dividend (b).
→ Return on Equity should be maximized.

1cStep1
1c
1 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

4

Answer 6
(A).

(i).

Annual Post merger Synergy (PAT Basis)

Pre (PAT) => 6000 + 450
= ₹6,450 crore

Post (PAT) = ₹6850 crore.

Thereby Synergy in PAT Benefit
$\boxed{₹400 \text{ crore}}$.

(ii)

Post merger mkt Value.

6,000 * 30 + 450 * x + 34,000.

=

6850 crore * 34
(PAT) (P/E Ratio).

Thereby x =

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 27

2850591-03

Addl. Book No. 2

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

DO NOT WRITE ANYTHING HERE

2,14,000 + 450x = ~~6800~~ 2,32,900

x = $\boxed{42}$ P/E Ratio of Medger.

6aStep1
2 Marks

(ii)

Industry Average P/E.

$\frac{42}{1.2} = \boxed{35}$.

Medger standalone MV per share.

PAT × P/E.

$\frac{450 \times 42}{5}$ = ₹3780 / share.

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

2

(iii).

3780 + 21.69% = 4599.882

= ₹4600

~~Total Amt. to be Paid.~~

~~450 × 42 = 18,900~~

~~5600~~

~~→ 3.375.~~

$\frac{4600 \times 5 cr}{360}$ → 63.88 Crore Shares.

(iv).

In this Case Madgu will chose Offer I as it will involve more cash than Shares

6aStep2 2 Marks

6a 4 Marks

6 5 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

3

2850591-04

Answer 6
(B).

(i)

(ii).

As (d1) = 0.5375.

0.53 ⟶ 0.7019.
0.54 ⟶ 0.7054.

0.01 ⟶ 0.0035.
0.0075 ⟶ ?

$\frac{0.0035 \times 0.0075}{0.01} = 0.002625$

6bStep1
6bStep2
0 Marks

0.7019 + 0.002625
⟹ 70.4525%.

The Institute of Chartered Accountants of India

Code: FN2AF850591
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 27

4

(iii).

~~1200~~
~~1128~~

~~(1282)~~ :

$CmP * N(d_1) - \frac{SP}{e^{rt}} * N(d_2)$.

$120 * 70.4525\% - 115 * 0.9891 * 29.5475\%$

$Call = 50.91$.

$N(d_2) = N(d_1) - \sigma\sqrt{t}$.

$= 0.5375$

6b
1 Marks

The Institute of Chartered Accountants of India

Code: FN2AF850591 **Total Marks:** 70
Subject : 02 Advanced Financial Management **Marks Obtained :** 27

Result Overview

Awarded Marks:27	Max Marks:70

Not Attempted	Optional	M Marked

Q1_Compulsory (Score: 2/14)

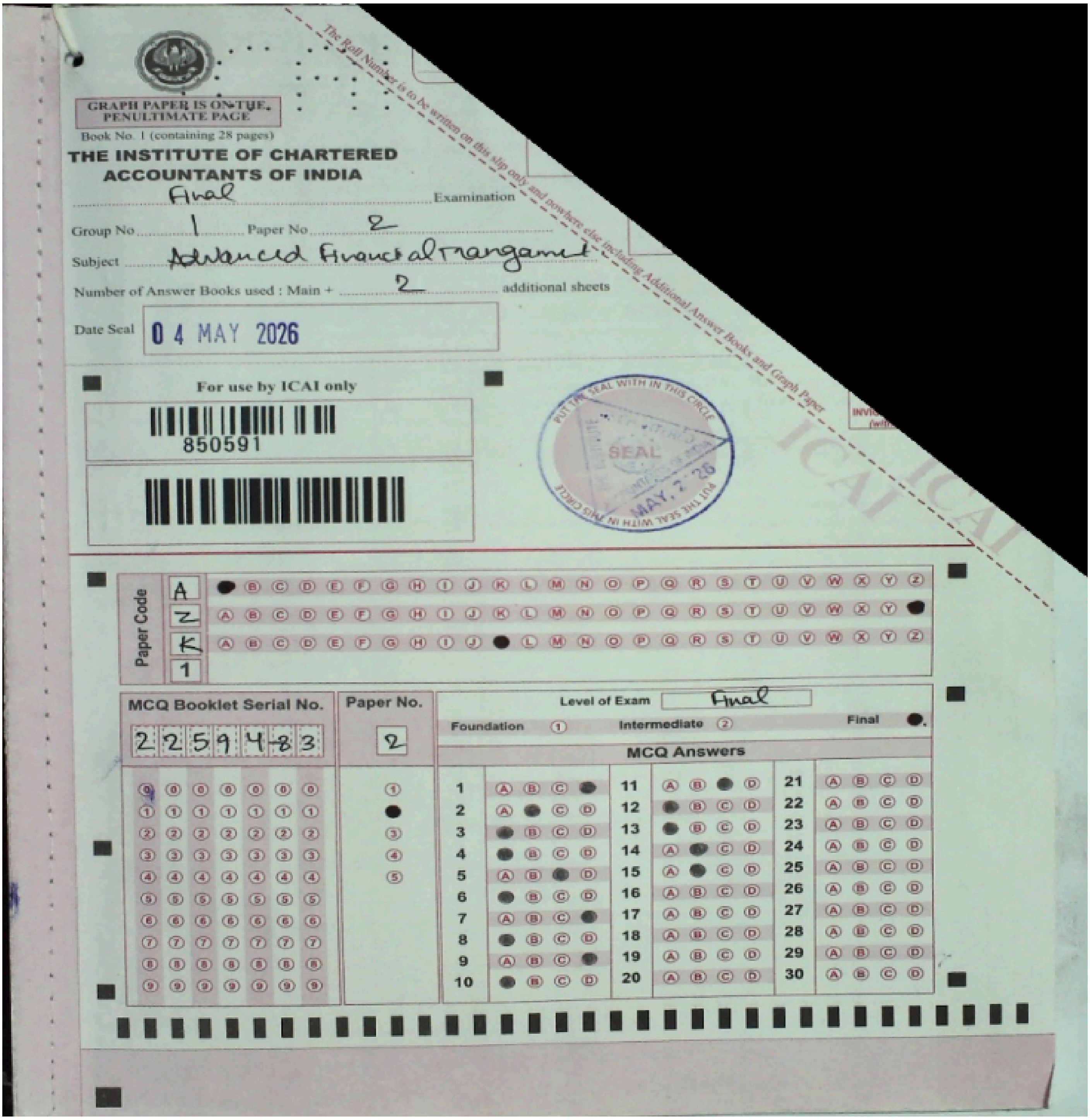
Question No	Awarded Marks	Maximum Marks	Status
1	2	14	M
1a	0	6	M
1b	1	4	M
1c	1	4	M

Q2_Q6 (Score: 25/56)

Question No	Awarded Marks	Maximum Marks	Status
2	14	14	M
2a	6	6	M
2b	4	4	M
2c	4	4	M
3	2	14	M
3a	0	6	M

3b	2	4	M
3c	0	4	M
4	0	14	
4a	0	6	
4b	0	4	
4c	0	4	
5	4	14	M
5a	4	5	M
5b	0	7	M
5c	0	2	M
6	5	14	M
6a	4	7	M
6b	1	7	M

MARKS OBTAINED (IN OMR) : 18


GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Final Examination

Group No 1 Paper No 2

Subject Advanced Financial Mangament

Number of Answer Books used : Main + 2 additional sheets

Date Seal 04 MAY 2026

The Roll Number is to be written on this slip only and nowhere else including Additional Answer Books and Graph Paper

[redacted]

For use by ICAI only

850591

PUT THE SEAL WITH IN THIS CIRCLE

SEAL

MAY, 2 '26

ICAI

Paper Code A Z K 1

MCQ Booklet Serial No. 2 2 5 9 4 8 3

Paper No. 2

Level of Exam Final

Foundation 1 Intermediate 2 Final

MCQ Answers