The Institute of Chartered Accountants of India

Code: FN2AF303259 **Total Marks:** 70

Subject : 02 Advanced Financial Management **Marks Obtained :** 66

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

CA Final Sept - 2025 Examination

Group No. I Paper No. 2

Subject Advance Financial Management

Number of Answer Books used : Main + 1 additional sheets

Date Seal 6 SEP 2025

[redacted]

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303259

Paper Code: P E M 1

MCQ Booklet Serial No. 7132949

Paper No. 2

Level of Exam Final

Foundation 1 Intermediate 2 Final

MCQ Answers

Page 01

The Institute of Chartered Accountants of India

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[redacted] than the space provided for the purpose or writing distinguishing mark,
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Illustration for Filling the MCQ Booklet Serial No.

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

[redacted] s. Pencil to Darken the appropriate Circle.
[redacted] darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
[redacted] any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
[redacted] ase darken the complete circle.
[redacted] 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	

Page 02

The Institute of Chartered Accountants of India

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03

Q1) (a)

(i) Cost of Equity = $R_f + \beta(R_m - R_f)$

$= 7\% + 0.8(16 - 7)$

$= 7\% + 0.8(9)$

$= 14.2\%$

(ii) EPS

	₹
Gross Profit	12 00 000
− Indirect Expenses	(500000)
− Depreciation	(30000)
− Interest (200000 × 10%)	(20000)
= Profit before Tax	650000
(−) Tax (20%)	(130000)
Profit after Tax (PAT) =	520000

$\therefore EPS = \frac{PAT}{\text{No. of Shares}}$

$= \frac{520000}{150000}$

$\boxed{\simeq 3.467}$

Round off $\boxed{= 3.47}$

1aStep1 3

Page 03

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04

Q1)(a)

(iii) ~~Equity Value = EBITDA x 4~~

2 ∴ EBIDTA =
Gross Profit - Operating Expense

= 1200000 - 500000
= 700000

∴ Equity Value

EBITDA x4	= 700000 x 4	= 2800000
(+) Cash + Cash Equivalent		= + 500000
(-) Debt		(200000)
		3100000

wrongly calculated

per share: $\frac{3100000}{150000}$ = 20.67

(iv) Enterprise Value =
Market Cap + Debt - Cash + Cash Equivalent

= (12 x 150000) + 200000 - 500000
= 1800000 + 200000 - 500000
= 1500000

1aStep2 2

1a 5

R

Page 04

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Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

05

Q1) (b)

Invoice Amount = 855 Lakh Yen
Current ₹ Equivalent = 500 Lakh

Current Exchange Rate : 1₹ = 1.71 Yen
10% Decline
Expected Rate : 1₹ = 1.539 Yen

(i) ∴ Expected loss
Current ₹ Equivalent = 500
Expected ₹ Equivalent (3m) = 555.56
$\left[\frac{855}{1.539 \text{ Yen}}\right]$
Loss (55.56)
Loss = 55.556

(ii) If Forward Contract is used
Current ₹ Equivalent = 500
3m later ₹ Equivalent = 508.929
$\left[\frac{855}{1.68 \text{ Yen}}\right]$
Loss (8.93)
Loss = 8.929

(iii) As seen above the expected loss is reduced from 55.556 to ~~8.93~~ 8.929 by using forward contract

1bStep1 4

∴ KK Ltd should use (ii) hedge by forward contract

R

1b 4

Page 05

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06

Q1 (C)

Steps of ~~B~~ Business Succession Strategy

1. Identify the Key leadership Positions - The company should ~~to~~ identify the key leadership positions which need to be succeeded for which they need to identify a suitable candidate

~~2. Map the competency re~~

2. Map the Competancy required for the position:- The company should map the competancies required in the person who shall take the specified leadership position.

3. Identify the competancy in the current work-force. - The sucession plan can involve a new leader from the current work force hence the company may choose an existing employee if he has the required competancy

4. Bridge ~~Leader~~ Leader - The bridge leader fills the gap between the current leader and the new successor if there is some delay in the sucessor to take over eg: due to age of the sucessor

1cStep1 4 1c 1 13 R

Page 06

The Institute of Chartered Accountants of India

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Subject : 02 Advanced Financial Management Marks Obtained : 66

07

Q2) (a)

Existing share Price as per dividend model

$D_0 = 2.5$ $K_e = R_f + \beta(R_m - R_f)$

$g = 4\%$ $= 10\% + 1.3 \times 6$

$= 17.8\%$

$\therefore P_0 = \frac{D_1}{K_e - g}$

$= \frac{2.5 \times 1.04}{17.8\% - 4\%}$

$= \frac{2.6}{13.8\%}$ $= \boxed{18.84}$

Revised Price

$D_0 = 2.5$ $K_e = 8\% + 1.2 \times 4$

$g = 6\%$ $= 12.8\%$

$P_0 = \frac{D_1}{K_e - g} = \frac{2.5 \times 1.06}{12.8 - 6}$

$= \frac{2.65}{6.8\%}$

$\boxed{= 38.97}$

2aStep1 4

R

The current share price is 45 even after the revised factor the price increasing to 38.97 from 18.84 he should ~~HOLD~~ the shares. HOLD

2aStep2 0

2a 4

Page 07

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

08

Q 2) (b)

Principle = 80 Crore
FRA rate = 7.3% p.a
3 month = 1.825% ((7.3)/12 × 3)

He will borrow for 3 month after 6 month
= 6×9 FRA

(i) Actual Rate = 7.6% p.a
3 month = 1.9% (7.6/12×3)

∴ ~~Settle~~ Settlement = $\frac{80 \text{ Crore} \times (1.825 - 1.9)\%}{1.019}$

$= \frac{600000}{1.019}$

$= 588812.5613$

~~Rounding~~ = 588125.56

∴ The bank will $\boxed{\text{pay}}$ BM & Co. ~~58872~~
₹ 588812.56

Page 08

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

09

Q2) (b)

(ii) Actual Rate = 6.8%

3 month = ~~1.6~~ 1.700% $((6.8/12) \times 3)$

∴ Settlement = $\frac{80 \text{ Crore} \times (1.825 - 1.7)\%}{1.017}$

$= \frac{1000000}{1.017}$

$= 983284.1691$

Round off = 983284.17

BM4 Co will pay to bank = ₹ 983284.17

2bStep1 4

R

2b 4

Page 09

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Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

10

Q2) (c)

Key Points to make a company financially sustainable :-

1. Have a good public image
2. Be clear about its Value (Value Clarity)
3. Have adequate financial systems
4. Have financial autonomy
5. Have more than one source of Income
6. Have more than one way of generating Income

R

2cStep1 4

2c 4

2 12

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Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

11

Q3) (a)

Initial outflow on redemption

Details	₹ (In Lakh)
= Premium paid on redemption (600 Lakh × 5%)	= 30
(−) Tax benefit on above (30 × 20%)	= (6)
+ Issue Cost of 10% Debenture	= 10
Total Cost	= 34 Lakh

3aStep1 2

Cost Saving in future

Details	₹ (Lakh)
Interest Saving (600 × 2%)	12
(−) Tax on Interest (12 × 20%)	(2.4)
(+) Tax Saving on Issue Cost = ($\frac{10}{5}$ × 20%)	0.4
	10

3aStep2 1

∴ Benefit of the Redemption

= Initial = 34 Lakh

Cost Saving = (10 × 3.79 (PV. 5yr (10%))) = 37.9 Lakh

Benefit = 3.9 Lakh

wrongly calculated

R

3aStep3 0

Page 11

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Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

12

Since the ~~Co~~ Present Value of Net Saving is 3.9 Lakh which is positive the Company should ~~Redeem the~~ go ahead with redemption decision.

3a 3

R

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Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

13

Q3) (b)

Option I : pay 1.5 + 1.2 as dividend & Capital gain

Opening NAV = 17.5
Closing NAV = 18.9
gain = 1.4

∴ Total Return = 1.4 + 1.2 + 1.5 = 4.1

∴ Holding period Return = $\frac{4.1}{17.5} \times 100$

= 23.43%

Option II : Reinvest at 17.3

∴ ~~Units~~ = (1.5 + 1.2) x 1000 = 2700

Units reinvested = $\frac{2700}{17.3}$ = 156.07

∴ Return = (1156.07 x 18.9) - (1000 x 17.5)
= 21847.723 - 17500
= 4349.72

R

Page 13

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

14

Holding Period Return % $= \frac{4349.72}{17500} \times 100$

$\boxed{= 24.86\%}$

3bStep1 4

Since return is higher in $\boxed{\text{Option II}}$

$\boxed{\text{Option - II}}$ is preferable.

R

3b 4

Page 14

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

15

Q3) (C)

Risk associated with use of Block chain:-

1. There are ~~vasious~~ various risk associated with block chain and every company ~~that~~ has a ~~differon~~ different risk appetite which can lead to a conflict in monitoring the control around the risk of use of block chain

2. Relibility of transaction depends on the underlying technology if the underlying technology has been tampered with it can lead to the integrity and relibility of transaction being tampered.

3. Lack of Centralised authority - The lack of a centralised authority to oversee and ~~Aattha~~ overlook the transaction leads to a risk

4. There is ~~huus~~ humongous data being processed which can lead to a risk of information overload if the company unable to process the information ~~accurately~~ accurately.

5. All transactions are ~~tronsas~~ irreversible.

3cStep1 4

3c 3 11

R

Page 15

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

16

Q4) (a)

(i) Systematic Risk = $\beta^2 \times$ variance of market

TC Limited

$= 0.8^2 \times 21$

Systematic Risk $= 1.344$

Unsystematic risk = Variance − Systematic Risk

$= 5.8 - 1.344$

$= 4.456$

PC Limited

Systematic Risk $= 0.7^2 \times 2.1$

$\boxed{= 1.029}$

Unsystematic Risk $= 4.8 - 1.029$

$= \cancel{3.771}\ \boxed{3.771}$

4aStep1 2

(ii) Portfolio Risk

∴ Portfolio beta $= (0.5 \times 0.8) + (0.5 \times 0.7)$

$= 0.75$

R

Systematic Risk $= 0.75^2 \times 21$

$= 1.181$

Unsystematic Risk of Portfolio = ~~weight² × sys~~

(weight of TC)^2 × Unsystematic Risk of TC + (weight of PC)^2 +

Unsystematic Risk of PC

Page 16

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

17

$= 0.5^2 \times 4.456 + 0.5^2 \times 3.771$

$= 2.057$

Variance = Systematic Risk + Unsystematic Risk

$= 1.181 + 2.057$

$\boxed{= 3.238}$

4aStep2 2

(iii) If proportion is changed to 60% for TCL & 40% for PC Ltd then

Unsystematic Risk $= 0.6^2 \times 4.456 + 0.4^2 \times 3.771$

$= 1.604 + 0.603$

$= 2.207$

∴ ~~Variance~~ ~~Syst~~ Porfolio beta $= 0.6 \times 0.8 + 0.4 \times 0.7$

$= 0.76$

∴ Systematic Risk $= 0.76^2 \times 2.1$

$= 1.213$

∴ Total Variance $= 1.213 + 2.207$

$= 3.420$

NO it is not favourable since the risk (variance) has increased.

4aStep3 2

And return also fell from 15% to 14.4%.

4a 6

R

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Code: FN2AF303259 Total Marks: 70
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18

Q4) (b)

~~Details~~ ₹

WN-1 Calculation of NIFTY future

Details		₹
Buy shares P Ltd (5000 x 50 x 1.5)	=	375000
Sell shares Q Ltd (2500 x 80 x 2)	=	400000
		(25000)

Since his overall position is short he will buy $\left(\frac{25000}{1000}\right)$ $\boxed{25}$ future of NIFTY

∴ Cash Position:

Details		₹
Buy P Ltd	5000 x 50	250000
Sell Q Ltd	2500 x 80	(200000)
Buy NIFTY	1000 x 25	25000
		75000

~~Next Day~~

~~Details~~	~~Amt~~	~~Qty~~	~~₹~~
~~Sell P Ltd~~	~~5000~~		
~~Buy Q Ltd~~	~~2500~~		
~~Sell NIFTY~~	~~1000~~		

R

Page 18

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

19

Next Day Position closed

Details		₹
Sell P Ltd	5000 x 49	245000
Buy Q Ltd	2500 x 84	(210000)
Sell NIFTY	25 x 975	24375
		59375

Loss : 75000 − 59375

$\boxed{= 15625}$

He's overall loss : 15625

4bStep1 4

4b 4

Page 19

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
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20

Q4) (c)

Parameter to identify Currency Risk:-

1. Government Action - Any policy or action taken by the government affects the currency appreciation or depriciation

2. Change in Government - A change in the government can cause appreciation or depriciation in currency due to confidence and policy.

3. War - A war can cause the currency to depriciate due to downgrading of the business and other ~~uncer~~ uncertainty

4. Natural Calamity, Coup etc - A natural clamity can depriciate the currency value as the industry and GDP will be affected

5. Nominal Interest Rate - A country with higher interest rates will have its currency depriciated against country with lower interest rate. ~~due to~~

6. Inflation Rate - Due to purchasing power parity the country with high inflation rate will have a depriciation in currency.

4cStep1 4

4c 4 14

R

Page 20

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

21

Q5) (a)

~~Assumption~~ WN-1 Exchange Rate

Year	Working	₹	NC
0		₹1 =	1.6
1	$\left[1.6 \times \frac{1.08}{1.06}\right]$	₹ 1 =	1.630
2	$\left[1.63 \times \frac{1.08}{1.06}\right]$	₹ 1 =	1.661
3	$\left[1.661 \times \frac{1.08}{1.06}\right]$	₹ 1 =	1.6[illegible]

[Assuming CF is nominal]

WN-2 INR (₹) Value of Cash flow of NC

Year	NC	Exchange Rate (WN-1)	(Million) ₹
0	75	1.6	46.875
1	7.8	1.630	4.785
2	11.4	1.661	6.863
3	12.3	1.692	7.270

It should be -46.875

Present Value of future Cash flow.

Year Amount NC in (₹) (₹) Disc

5aStep1 2

R

Page 21

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

22

NPV Calculation (Assume Cash flow are Nominal)

Year	(WN-2) NC cashflow	₹ cashflow	Total	P.V.F	Total
0	(46.875)	-	(46.875)	1	(46.875)
1	4.785	8.607	13.392	0.926	12.401
2	6.863	12.6	19.463	0.857	16.680
3	7.27	13.8	21.07	0.794	16.730
					−1.064

5aStep2 3

Since NPV is negative project should not be accepted.

5aStep3 1

* In the above solution it is assumed that cashflow is nominal.

Assumption 2 :-

* If it is assumed that ~~easy~~ cashflow is real then the solution will be as follows:-

WN-3 Nominal Cashflow of NC

Year	Amount		Future Value Factor		Amount
0	(75)		1		(75)
1	7.8	×	1.08	=	8.424
2	11.4	×	$(1.08)^2$	=	~~14.036~~ 13.297
3	12.3	×	$(1.08)^3$	=	15.494

WN-4 NC to ₹ in INR

Year	NC Amt	Rate	₹
0	75	1.6	46.875

Page 22

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

23

(WN - 1)

			Amt
1	~~TEB~~ 8.424	1.63	5.168
2	~~HEF~~ 13.297	1.661	8.005
3	~~R~~ 15.494	1.692	9.157

WN-5- ₹ Cashflow in Nominal

Year	Amt	Rate	Amt
1	8.607	1.06	9.123
2	12.6	$(1.06)^2$	14.157
3	13.8	$(1.06)^3$	16.436

NPV Calculation (Assume Cashflow are real)

Year	WN-4 (NC)	₹ (WN-5)	Total	PVF	Total
0	(46.875)	0	(46.875)	1	(46.875)
1	5.168	9.123	14.291	0.926	13.233
2	8.005	14.157	22.162	0.857	18.993
3	9.157	16.436	25.593	0.794	20.321
					5.672

Since NPV is positive project should be accepted.

∴ In this answer we assumed cashflow given in question are real so we adjusted them as per inflation factor.

5a 6

R

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24

Q5) (b)

(i) NPV at year end = 25.

∴ If NPV has increased by 13.6%

= 100 + 13.6% = 113.6%

∴ Initial NPV = $\frac{\text{closing NPV}}{1.136}$

$= \frac{25}{1.136}$

Opening NPV = 22

∴ Let unit purchased = x

∴ $x + \frac{x \times 5}{25} = 15000$

$1.2x = 15000$

$x = \frac{15000}{1.2}$

$\boxed{= 12500 \text{ units}}$

(ii) As calculated above the NPAV per unit on date of investment = 22.

Total Investment = Unit × [NPV + Entry load]

= 12500 × [22. + 0.05]

= 275625

5bStep1 3

R

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25

(iii) Return = [closing Unit x NPV(End)] - ...

Redeem Amt = closing Unit x [NPV (End) - Exit Load]

= 15000 x [25 - (1% (25))]

= 371250

Tax Paid = 371250 - 275625

= 95625 x 20%

= 19125

Redeeded Amt

Actual ~~Return~~ = 371250 - 19125

= 352125

Return % = $\frac{352125 - 275625}{275625}$

= $\frac{76500}{275625}$ $\boxed{= 27.76\%}$

Real Return = 27.76 - 4.5%

$\boxed{= 23.26\%}$

5bStep2 4

5b 7

5 13

Page 25

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

26

Q6.(a)

~~Required Return = 8.6 × 20% + 11 × 30% + 13 × 50%~~
~~= 1.72 + 3.3 ~~3.9~~ + 6.5~~
~~= ~~8.92%~~ = 11.52~~

(1) ~~FCFF = 125 Million~~

~~g = 8%~~

~~Value of firm = $\frac{FCFF + g}{Ke - g}$~~

~~= $\frac{125 \times 1.08}{(\cancel{8.92} - 8)\%}$ $\frac{125 \times 1.08}{(11.52 - 8)\%}$~~

Required Return :-

Debt = 8.6 × (1 − 0.3) × 0.2 = ~~1.806~~ 1.204

Pref. Stock = 11% × 0.3 = 3.3

Com. Eq stock = 13 × 0.5 = 6.5

11%

∴ Value of firm = $\frac{FCFF - g}{Ke - g}$

$= \frac{125 \times 1.08}{(11 - 8)\%}$

= 4500

6aStep1 2

Page 26

The Institute of Chartered Accountants of India

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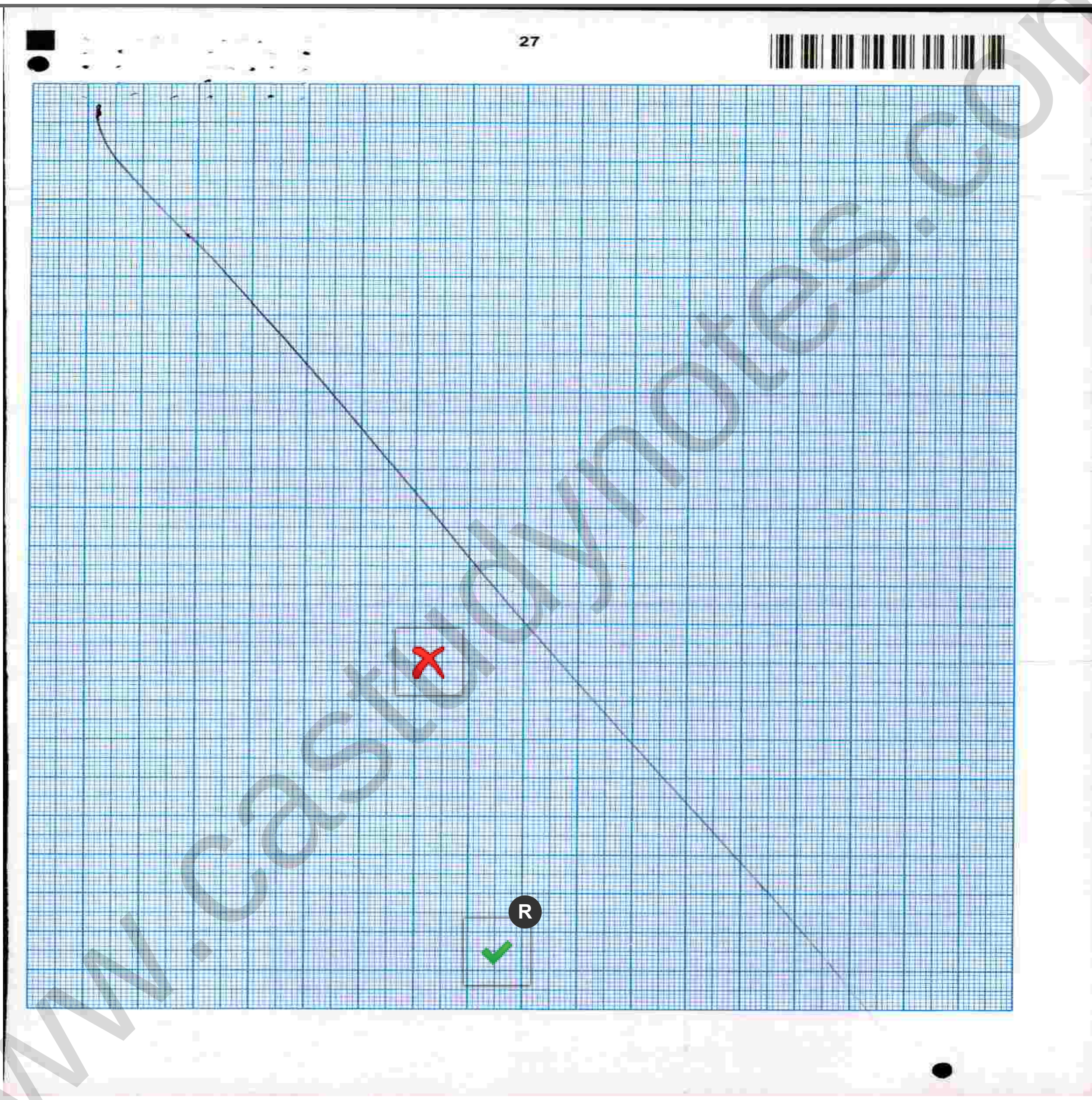

Page 27

The Institute of Chartered Accountants of India

Code: FN2AF303259
Subject : 02 Advanced Financial Management

Total Marks: 70
Marks Obtained : 66

28

Competency

Page 28

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70
Subject : 02 Advanced Financial Management Marks Obtained : 66

2303259-01

Addl. Book No. 1

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS ADDITIONAL ANSWER BOOK

6 SEP 2025

Q 6) (a)

Value of Equity = Value of firm - Debt - Pref share
= 4500 - 275 - 120
= ₹ 4105 Million

Per share Value = $\frac{4105}{20}$

$\boxed{= 205.25 \text{ per share}}$

(i) ∴ Since share is available at 192.5 and value is $\boxed{205.25}$ it is undervalued. Mr Roni should BUY the share.

6aStep2 3

(ii) Ke of Equity = 13
g = 8.5
Value = 4105

∴ $4105 = \frac{FCFF \times 1.085}{(13 - 8.5)\%}$

$4105 \times 4.5\% = FCFF \times 1.085$

$FCFF = \frac{184.725}{1.085}$

6a 7

6aStep3 2

$\boxed{= 170.25}$ Million

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Q6) (b) 2

Alternative : I

Borrow pmt Value of 7500000
= 7500000 / 1.045

= 7177033 $

Convert into £ @ 1£ = $1.3288

= 7177033 / 1.3288

= 5401139 £

Invest in UK @ 5%

∴ 5401139 × 1.05

6bStep1 4

= 5671196 £

Total Receipt in Alternative I

= £5671196

Page 30

The Institute of Chartered Accountants of India

Code: FN2AF303259 Total Marks: 70

Subject : 02 Advanced Financial Management Marks Obtained : 66

3

2303259-02

Alternative II : Forward Contract

Forward Rate :

1 £ = $ 1. 3128

$\therefore \frac{7500000}{1.3128} = \cancel{5712980}$

£ 5712,980

Total Receipt in Alternative II

= 5712980

6bStep2 3

Since Receipt is more in Alternative II we should choose Alternative II which is forward Contract

6b 7

6 14

Page 31

The Institute of Chartered Accountants of India

Code: FN2AF303259
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Total Marks: 70
Marks Obtained : 66

4

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Page 32

The Institute of Chartered Accountants of India

Code: FN2AF303259
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Result Overview

Awarded Marks: 66 **Max Marks:70**

NA Not Attempted O Optional M Marked

Q1_Compulsory (Score: 13/14)

Question No	Awarded Marks	Maximum Marks	Status
1	13	14	M
1a	5	6	M
1b	4	4	M
1c	4	4	M

Q2_Q6 (Score: 53/56)

Question No	Awarded Marks	Maximum Marks	Status
2	12	14	M
2a	4	6	M
2b	4	4	M
2c	4	4	M
3	11	14	O
3a	3	6	O
3b	4	4	O
3c	4	4	O
4	14	14	M
4a	6	6	M
4b	4	4	M
4c	4	4	M
5	13	14	M
5a	6	7	M
5b	7	7	M
6	14	14	M
6a	7	7	M
6b	7	7	M