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CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

Question Paper	
(NEW) SFM DETAILED TEST - 1	**Duration**: 70
Details: Test - 1	**Marks**: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

Q-1 What are key decisions falling within the scope of financial strategy?

(4 marks)

Q-2 Neel holds Rs. 1 crore shares of XY Ltd. whose market price standard deviation is 2% per day. Assuming 252 trading days in a year, determine maximum loss level over the period of1tradingdayand10tradingdayswith99%confidencelevel.Assumingsharepricesare normally for level of 99%, the equivalent Z score from Normal table of Cumulative Area shall be2.33

(4 marks)

Q-3 Briefly explain Counter Party Risk and the various techniques to manage thisrisk

(3 marks)

Q-4: Consider an investment of Rs 10 million in L & T and an investment of Rs 5 million in Sun Pharma. Suppose that the daily volatilities of these two assets are 2% and 1%, respectively, and that the coefficient of correlation between their returns is 0.7. What is the 10-day 99% value at risk for the portfolio? By how much does diversification reduce the VAR?

(6 marks)

Q-5: ABC Ltd.'s shares are currently selling at Rs 13 per share. There are 10,00,000 shares outstanding. The firm is planning to raise Rs 20 lakhs to finance a new project.

Required:

What are the ex-right price of shares and the value of a right, if?

- **a.** The firm offers one right share for every two shares held.
- **b.** The firm offers one right share for even-four shares held.

c. How does the shareholders' wealth change from (a) to (b)? How does right issue increases shareholders' wealth?

Current market price of ABC Ltd. share = Rs 13

Number of equity shares outstanding = 10,00,000

Investment planning in new project = Rs 20,00,000

(6 marks)

Q-6:XYZ Company has current earnings of Rs. 3 per share with 500000 shares outstanding. The Company plans to issue 40,000, 7% convertible preference shares of Rs. 50 each at par. The preference shares are convertible into 2 shares for each preference shares held. The equity share has a current market price of Rs. 21 per share.

1. What is preference shares' conversion value?
2. What is conversion premium?
3. Assuming that total earnings remain the same, calculate the effect of the issue on the basic earnings per share (a) before conversion (b) after conversion.
4. If profits after tax increases by Rs. 1 million what will be the basic EPS (a) before conversion and (b) on a fully diluted basis?

(6 marks)

Q-7: M/s. Transindia Ltd. is contemplating calling Rs 3 crores of 30 years Rs 1,000 bond issued 5 years ago with a coupon interest rate of 14 percent. The bonds have a call price of Rs 1,140 and had initially collected proceeds of Rs 2.91 crores due to a discount of Rs 30 per bond. The initial floating cost was Rs 3,60,000. The Company intends to sell Rs 3 crores of 12 per cent coupon rates, 25 years bonds to raise funds for retiring the old bonds. It proposes to sell the new bonds at their par value of Rs 1,000. The estimated floatation cost is Rs 4,00,000. The company is paying 40% tax and its after cost of debt is 8 per cent. As the new bonds must first be sold and their proceeds, then used to retire old bonds, the company expects a two months period of overlapping interest during which interest must be paid on both the old and new bonds.

What is the feasibility of refunding bonds?

(6 marks)