

**INSTITUTE OF ACTUARIES OF INDIA**

**EXAMINATIONS**

**21<sup>st</sup> May 2024**

**Subject CB1 – Business Finance**

**Time allowed: 3 Hours 15 Minutes (09.30 – 12.45 Hours)**

**Total Marks: 100**

- Q. 1)** Which of the following is not a feature of Ordinary Shares?
- A. Ordinary shareholders typically possess voting rights at meetings corresponding to the number of shares they hold
  - B. Dividends earned on ordinary shares are not legally mandated by the company
  - C. Ordinary shares represent the least senior form of finance issued by companies
  - D. Ordinary shares are seldom redeemable
- [2]**
- Q. 2)** Which of the following scenarios would NOT typically lead to a company obtaining a Stock Exchange listing?
- A. To provide an exit strategy for its current investors
  - B. To secure additional capital through public investment
  - C. To conduct a rights issue for existing shareholders
  - D. To enhance the visibility and liquidity of its shares in the market
- [2]**
- Q. 3)** Which of the following would be an example of specific risk for a residential housing construction company?
- A. Inflation
  - B. Interest rates
  - C. Regional variations in house prices
  - D. Recession
- [2]**
- Q. 4)** Which of the following is NOT a feature of Monte Carlo Simulation?
- A. modelling the project to account for interdependencies and serial correlations.
  - B. specifying probabilities for the distribution of key variables.
  - C. simulating cashflows using fixed values of variable inputs.
  - D. recording and ordering the outputs to assess their probability distributions.
- [2]**
- Q. 5)** A company sold goods worth INR 500,000. It has received a payment of INR 200,000, expects payment of INR 200,000 in future. However, it doesn't expect the remainder of INR 100,000 to be paid as the other party has gone bankrupt.
- Which of the following accounting concepts shall be applied to calculate how much should be shown in accounts as sales?
- A. Money measurement and Matching concept
  - B. Prudence and Accruals concept
  - C. Accruals and Materiality concept
  - D. Realisation and Dual aspect concept
- [2]**
- Q. 6)** Which of the following is a Non-Current Asset?
- A. Cash
  - B. Inventory
  - C. Trade receivable
  - D. Machinery
- [2]**

- Q. 7)** Which of the following is a correct formula for Return on Capital Employed (ROCE)?
- A. Profit before tax  
Share capital + Reserves + Long term debt
  - B. Profit before tax and interest  
Share capital + Reserves
  - C. Profit before tax and interest  
Share capital + Reserves + Long term debt
  - D. Profit before tax and interest  
Share capital + Long term
- [2]
- Q. 8)** Which of the following statement is false?
- A. A call option gives the right, but not the obligation, to buy a specified asset on a set date in the future for a specified price.
  - B. A put option gives the right, but not the obligation, to sell a specified asset on a set date in the future for a specified price.
  - C. An American style option is an option that can be exercised on a set date before its expiry.
  - D. A European style option is an option that can be exercised only at expiry.
- [2]
- Q. 9)** A parent company has a foreign subsidiary located in a host country that does not have a double tax arrangement with the parent's home country. The foreign subsidiary pays regular dividends to the parent company. Which of the following will apply?
- A. The subsidiary will pay tax on profits earned in its host country and the parent will pay tax on dividends received in its home country
  - B. The subsidiary will not be taxed on profits earned in its host country and the parent will pay tax on dividends in its home country
  - C. The subsidiary will pay tax on profits earned in its host country and the parent will not be required to declare the dividends as taxable income in its home country
  - D. The subsidiary will pay tax on profits earned in its host country and the parent will pay tax on dividends received in the subsidiary's host country
- [2]
- Q. 10)** A company makes sales on credit of INR 100,000 every month. Trade receivables generally take 45 days to pay. What would be the impact on cash of changing the terms of trade so that receivables were settled after 35 days?
- A. The bank balance will increase immediately
  - B. The bank balance will increase over the next 35 days
  - C. The bank balance will increase over the next 45 days
  - D. The bank balance will increase within a month
- [2]
- Q. 11)** Consider a new non-current asset purchased at INR 5,00,000 with a useful life of 7 years. Assuming a residual value of INR 20,000 at the end of 7 years, what would be the approximate book value at the end of year 5 using Reducing Balance Method?
- A. INR 35,000
  - B. INR 40,000
  - C. INR 45,000
  - D. INR 50,000
- [2]

- Q. 12)** Last year Company P made profits before taxation of INR 100,000. Throughout the year, the company had a mortgage of INR 100,000 on which INR 6,000 interest was paid, and an 8% unsecured loan stock with interest payments of INR 10,000. The interest cover was:
- A. 7.25
  - B. 6.25
  - C. 10
  - D. 11
- [2]
- Q. 13)** Market price of a share is currently INR 100. If ABC has a 1 for 2 rights issue at INR 70, the expected ex-rights price of the share will be?
- A. INR 100
  - B. INR 70
  - C. INR 80
  - D. INR 90
- [2]
- Q. 14)** Compute Weighted Average Cost of Capital using the below information.
- Equity capital = INR 100 crores
  - Debt capital = INR 50 crores
  - Risk free rate = 6%
  - Geared beta = 1
  - Equity risk premium = 7%
  - Gross cost of debt = 8%
  - Tax rate = 12%
- A. 11%
  - B. 12%
  - C. 13%
  - D. 14%
- [2]
- Q. 15)** Which of the following is NOT a method of reducing principal-agent problems?
- A. A profit-related employee bonus scheme
  - B. Executive share options
  - C. An hourly rate of pay for workers and managers
  - D. Written agreements between stakeholders
- [2]
- Q. 16)** Which of the following is not true about Commercial paper?
- A. It is listed on the Stock exchange
  - B. It is a type of bearer document
  - C. It is a type of short term borrowing
  - D. It is issued at a discount and redeemed at par
- [2]
- Q. 17)** Which of the following statements about project finance is true?
- A. Projects involved are often low risk in nature
  - B. It often involves public-private partnership
  - C. It provides on-balance-sheet financing
  - D. It is a recourse method of financing
- [2]

**Q. 18)** Which of the following is NOT a part under Assets in statement of financial position of an insurance company?

- A. Reinsurer's share of technical provisions
- B. Free reserves
- C. Prepayments
- D. Fund for future appropriations

[2]

**Q. 19)** What is the strongest argument in favour of setting a common hurdle rate across a company for all projects?

- A. The general notion is all projects in the same industry will have the same risk
- B. A common rate will ensure consistency when capital rationing is in effect
- C. The decision rule is clear and can be applied consistently
- D. It will rule out any low risk projects

[2]

**Q. 20)** Vision plc has shares in three companies

It has 20% holding in Realty Ltd and has a right to appoint 2 of the 10 directors  
 It has 30% holding in Imagine Ltd and has a right to appoint 7 of the 10 directors  
 It has 60% holding in Ambition Ltd and has used its voting rights to appoint all of its directors.

Which are the subsidiaries of Vision plc?

- A. Realty Ltd only
- B. Ambition Ltd
- C. Imagine Ltd and Ambition Ltd
- D. All the three

[2]

**Q. 21)** A company wants to set up a business of glass ware and has projected the following cashflows.

Year	0	1	2	3
Cashflow	-150	50	80	100

i) Compute the NPV using interest rate of 12% p.a. and Internal Rate of Return. (4)

ii) What are the advantages of NPV method over Internal Rate of Return? (2)

[6]

**Q. 22)** At 31 March '23 the statement of financial position of Virgo Ltd which is a manufacturing company was as follows:

Assets	INR	INR
<b>Non-Current assets</b>		
Cost	500,000	
Less Depreciation	100,000	
		400,000
<b>Current assets</b>		

Inventories		75,000
Trade receivables		12,500
Cash		15,000
		102,500
<b>Total assets</b>		<b>502,500</b>
<b>Equity and Liabilities</b>		
Ordinary share capital		200,000
Reserves		50,500
<b>Total equity</b>		<b>250,500</b>
<b>Non-current liabilities</b>		
15% Debenture loan		180,000
<b>Current liabilities</b>		
Trade payables		72,000
<b>Total liabilities</b>		<b>252,000</b>
Total Equity and liabilities		<b>502,500</b>

During FY 23-24 the following items appeared in the company's accounting records:

Heading	INR
Sales	300,000
Increase in cash	113,500
Increase in inventories	10,000
Increase in payables	2,500
Rent of premises	25,000
Cost of raw materials	50,000
Wages and Salaries	50,000
Other expenses	2,000
Purchase of non-current assets	35,000

The non-current assets are being depreciated on a straight-line basis over a period of five years including the year of purchase.

During this Financial Year the interest was paid on the debenture stock and no dividend was paid on ordinary share.

Assume the rate of corporation tax is 15%. Prepare the statement of profit or loss for the last FY and the statement of financial position as at 31 March '24.

[20]

**Q. 23)** The following information is provided from the statements of financial position of Mango plc and Apple Ltd. Figures in INR.

Heading	Mango Ltd	Apple Ltd
Non-current assets	450,000	100,000
Current assets	100,000	50,000
<b>Total assets</b>	<b>550,000</b>	<b>150,000</b>
<b>Equity and Liabilities</b>		
Share capital (INR 10 share)	100,000	40,000
Reserves	210,000	60,000
Equity	<b>310,000</b>	<b>100,000</b>
Loan stock	200,000	40,000
Current liabilities	10,000	50,000

Total liabilities	<b>210,000</b>	<b>90,000</b>
<b>Total equity and liabilities</b>	520,000	190,000
<b>Market share of share</b>	200	100

Mango has agreed to buy 50% of Apple for a package of INR 20 plus 2 shares in Mango for every 5 shares bought in Apple. Define Goodwill and Calculate the value of goodwill on this transaction. Explain each step in the calculation giving reasons. [5]

- Q. 24)** The directors of two general insurance companies in the same country are considering a possible merger. Describe the possible motives for the merger. [5]
- Q. 25)** Adam Limited, a high-growth technology company specializing in mobile applications, is contemplating a potential listing on the National Stock Exchange (NSE). However, the company's Chief Financial Officer (CFO) faces resistance from the majority owner, a single family. Evaluate the CFO's proposal and analyze the potential concerns of the company's owner. [10]
- Q. 26)** Describe the capital budgeting decision and explain its importance to a business. [5]
- Q. 27)** If a company is not ESG compliant, it may face several issues. Discuss this statement. [5]
- Q. 28)** ABC is a multinational corporation seeking to raise money by issuing Eurobonds. What are the benefits and risks to ABC of issuing Eurobonds. [4]

\*\*\*\*\*