

INSTITUTE OF ACTUARIES OF INDIA
EXAMINATIONS

February 2025

Subject CB1 – Business Finance

Time allowed: 3 Hours 15 Minutes

Total Marks: 100

- Q. 1)** The management of Star Light Ltd. is considering change of method used for calculation of depreciation for a machine purchased last year, from Reducing Balance method to Straight-line method of depreciation.

The machine was purchased for INR 5,00,000 and was estimated to have a useful lifetime of 5 years with estimated residual value of INR 50,000 at the end of 5th year.

What is the impact on accounting profit of ABC Ltd. because of this change?

- A. Gain of approximately 1,00,000
- B. Loss of approximately 1,00,000
- C. Gain of approximately 25,000
- D. No impact

[2]

- Q. 2)** Sachin has acquired 35% equity stake in a general partnership business. He is entitled to 20% of partnership's profit. What proportion of the firms liabilities will Sachin be legally responsible for in the event the firm incurs liabilities?

- A. 100%
- B. 0%
- C. 20%
- D. 35%

[2]

- Q. 3)** A parent company's only asset is an INR 10 Lac investment in a 70% subsidiary. The subsidiary's assets are valued at INR 50 Lac. What value will be attributed to group assets in the consolidated financial statements?

- A. INR 10 Lac
- B. INR 50 Lac
- C. INR 57 Lac
- D. INR 60 Lac

[2]

- Q. 4)** Below is an extract from the statement of financial position ending March 20X1 for S&Z plc.

| Equity and Liabilities | INR | INR |
|---------------------------------|---------------|----------------|
| Issued ordinary shares of INR 1 | | 300,000 |
| Other reserves | | |
| Share premium account | 200,000 | |
| Revaluation reserve | <u>75,000</u> | |
| | | 275,000 |
| Retained earnings | | <u>87,000</u> |
| Total equity | | 662,000 |
| Non-current liabilities | | |
| 9% convertible loan stock | | 200,000 |
| 10% debentures | | 150,000 |

The first conversion date for the 9% convertible loan stock was March 20X2. INR 100,000 nominal was converted. The conversion terms were 3 shares for every INR 5 nominal of convertible stock. Interest was paid before conversion took place.

Calculate the value of S&Z plc 'Share premium account' as at March 20X2.

[2]

- A. INR 200,000
- B. INR 240,000
- C. INR 260,000
- D. INR 300,000

Q. 5) Which of the following could explain a significant difference between a company's basic earnings per share and diluted earnings per share?

- A. The company has recently made a large rights issue
- B. The company has fixed interest bonds in issue
- C. The company plans to pay a substantial dividend
- D. The company has convertible debt in issue

[2]

Q. 6) The main adjustments made to the accounting profit figure does NOT include the following

- A. Expenses incurred for entertainment of customers
- B. Research and development costs
- C. Charge for depreciation, and instead subtract the 'capital allowances'
- D. Expenses incurred to purchase office furniture

[2]

Q. 7) Which of the following is NOT a variation of Preference shares?

- A. Convertible
- B. Non-Cumulative
- C. Redeemable
- D. Non-Participating

[2]

Q. 8) Which of the following would NOT be disclosed in a company's statement of changes in equity?

- A. Increase in the revaluation reserve
- B. Payment of a dividend
- C. Profit for the year
- D. Repayment of a loan

[2]

Q. 9) Which accounting ratio is generally NOT used to measure profitability?

- A. Profit Margin
- B. Asset Utilization Ratio
- C. Quick Ratio
- D. Return on Capital employed

[2]

Q.10) A company has INR 8 Lac line of credit at 7.5% p.a. with 0.5% p.a. commitment fee on unused amount of the loan. The company draws INR 5 lacs for 6 months. What would be the annual financing cost in terms of % of this arrangement?

- A. 7.50%
- B. 7.80%
- C. 8.00%
- D. 7.40%

[2]

- Q. 11)** Which of the following is NOT a reason why the gross redemption yield on corporate loan stock is usually greater than that on government bonds of equivalent term and coupon?
- A. Smaller issues sizes of most corporate loan stocks
 - B. No tax is paid on interest received from government bonds
 - C. Lower marketability of the corporate loan stock
 - D. Greater chance of default of the corporate loan stock
- [2]
- Q. 12)** Which of the following is most often used by companies that are suffering from cashflow problems arising from late-paying customers?
- A. Hire purchase
 - B. Bills of exchange
 - C. Recourse factoring
 - D. Trade credit
- [2]
- Q. 13)** Equity will not arise in which of the following ways?
- A. Sale of shares to the shareholders
 - B. Adjustments, such as the revaluation of non-current assets
 - C. Retention of profit after tax
 - D. Acquisition of another company
- [2]
- Q. 14)** What is NOT true about a Forward contract?
- A. Contract to trade at a specified price in future
 - B. Non-standardized contract
 - C. Exchange tradeable contract
 - D. Contract to trade a specified asset on a set date in future
- [2]
- Q. 15)** Consider the following two statements and decide whether they are true or false
- If and only if, you consider both the statements to be true, you must decide whether statement 2 is a valid explanation as to why statement 1 is true
- Statement 1: In a swap between bank and another counterparty, margin is payable only by the non-bank counterparty because
- Statement 2: The bank is the seller of a swap and cannot be in a position that the swap is a liability for them and an asset for the counterparty
- A. Both are True, 2 being valid explanation to 1
 - B. Both are True, 2 not being valid explanation to 1
 - C. 1 true, 2 false
 - D. Both are False
- [2]
- Q. 16)** It would not be appropriate to spread the cost of a failed AI development over a 5-year period. This is as per which accounting concept.
- A. Consistency
 - B. Going concern
 - C. Prudence
 - D. Cost concept
- [2]

- Q. 17)** The term 'current asset' as used in company reports and accounts describes cash and other assets
- A. that are marketable
 - B. that will be converted into cash in the normal course of business
 - C. that the company plans to dispose of within the next financial year
 - D. that are tangible
- [2]
- Q. 18)** Which of the following is true?
- A. P&L statement shows the cash generated by a company over the last year
 - B. It is possible to calculate the market value of the shareholders' interest in a company from data shown in its statement of financial position
 - C. A change in accounting policy that reduces a company's depreciation charge by INR 10 lacs will usually increase the post-tax profits attributable to ordinary shareholders by INR 10 Lacs
 - D. A provision is a potential liability which had not materialised as a liability by the date of the statement of financial position
- [2]
- Q. 19)** Calculate the book value of the asset at the end of 3rd year using Straight line method. Cost of asset is INR 5 Lacs. Estimate residual value is INR 50,000 and useful life is 5 years.
- A. INR 230,000
 - B. INR 320,000
 - C. INR 140,000
 - D. INR 200,000
- [2]
- Q. 20)** Which of the following is NOT an example of Current Liability?
- A. Tax provision which is payable in next 6 months
 - B. Overdrafts
 - C. Trade payables
 - D. Medium term bank loans
- [2]
- Q. 21)** A key difference between the net present value technique and the internal rate of return technique for capital budgeting is:
- A. that they use different cash flows
 - B. that they have different reinvestment rate assumptions
 - C. that the net present value is easier to calculate
 - D. that they are relevant to the shareholders
- [2]

Answer Q. 22 to Q. 24 using the following information

Profit Statement

| | Company Alpha <i>in crores</i> | Company Beta <i>in crores</i> |
|---------------|--------------------------------------|-------------------------------------|
| Sales | 5,000 | 7,500 |
| Cost of Sales | 2,000 | 3,200 |
| Gross Profit | 3,000 | 4,300 |

| | | |
|----------------------------|-------|-------|
| Advertising & Distribution | 200 | 226 |
| Administration | 300 | 120 |
| Operating Profit | 2,500 | 3,954 |
| Interest | 720 | 560 |
| Net Profit | 1,780 | 3,394 |

| | Company Alpha <i>in crores</i> | Company Beta <i>in crores</i> |
|----------------------------|-----------------------------------|----------------------------------|
| Fixed Assets | 17,500 | 22,500 |
| Current Assets | | |
| Inventory | 167 | 180 |
| Trade Receivables | 417 | 523 |
| Cash | 50 | 65 |
| | 634 | 768 |
| Total Assets | 18,134 | 23,268 |
| Current Liabilities | 264 | 500 |
| Equity | 9,870 | 13,400 |
| Long Term Loans | 8,000 | 9,368 |
| Total Liabilities | 18,134 | 23,268 |

Q. 22) Compute the 'Return on Capital Employed' given the above information for Alpha and Beta respectively.

- A. 15% and 22%
- B. 18% and 25%
- C. 20% and 28%
- D. 23% and 32%

[3]

Q. 23) Compute the 'Inventory Turnover period' in days given the above information for Alpha and Beta respectively.

- A. 30 and 21
- B. 20 and 15
- C. 12 and 9
- D. 34 and 19

[3]

Q. 24) Current Ratio of the company Alpha and Beta respectively are?

- A. 2.8 & 1.5
- B. 2.4 & 1.7
- C. 2.6 & 1.7
- D. 2.4 & 1.5

[2]

Q. 25) Which of the following statements is true?

- I. Systematic risk arises because of volatility of market as a whole
- II. Diversification across a well-diversified portfolio will entirely remove systematic risk
- III. Specific risk can be diversified away on a large well spread portfolio

[2]

- A. Only I is correct
- B. Only II & III are correct
- C. Only I & III are correct
- D. All are correct

Q. 26) Which of the following is a short document recording the intention of people concerned to form a company?

- A. Share Certificates
- B. Memorandum of Association
- C. Articles of Association
- D. Annual Report & Accounts

[2]

Q. 27) Share premium account is the difference between which of the following?

- A. the issue price and the market price of the share
- B. the market price and purchase price of the share
- C. the market price and the nominal value of the share
- D. the nominal value and the issue price of the share

[2]

Q. 28) You have been asked to determine the internal rate of return (IRR) of a project that has an initial cash outflow, followed by seven years of net cash inflows. The project's net present value was + INR 100,000 when determined at 8% and – INR 100,000 when determined at 16%.

Which of the following statements concerning the project's IRR is correct?

- A. The IRR is approximately 12%
- B. The IRR is exactly 12%
- C. The IRR is greater than 16%
- D. The IRR is less than 8%

[2]

Q. 29) The table below gives the expected cash inflows and outflows for a project. Determine the approximate payback period in years. Assume continuous cashflows.

| Time in years | 0 | 1 | 2 | 3 | 4 | 5 |
|------------------------|-----|-----|-----|---|---|----|
| Cashflow (INR in Lacs) | (5) | (3) | (2) | 5 | 8 | 10 |

- A. 3.00
- B. 3.50
- C. 3.75
- D. 4.00

[2]

Q. 30) An increase in value of a non-current asset recognised in the revaluation reserve would NOT

- A. Increase the equity of the Company
- B. Increase the profit of the Company
- C. Make the statement of financial position look stronger
- D. Increase the other comprehensive income

[2]

Q. 31) An Associated Undertaking is which of the following?

- A. Which is not a subsidiary but which is subject to significant influence (but not control) by the parent company
- B. Which is a subsidiary subject to significant influence (but not control) by the parent company
- C. Which is not a subsidiary but subject to significant influence and control by parent company
- D. Which is a subsidiary but not subject to significant influence by Parent company [2]
- Q. 32)** Which of the following items does NOT occur in the 'revenue account' of insurance company accounts?
- A. Earned premiums
- B. Incurred claims
- C. Investment income on investments relating to shareholders' fund
- D. Realized capital gains on investments held to cover insurance liabilities [2]
- Q. 33)** Which of the following statements are correct
- I) Asset gearing may be defined as $\text{Borrowing}/(\text{Borrowing} + \text{Equity})$
- II) Asset gearing may also be defined as $\text{Borrowing}/\text{Equity}$
- III) Asset gearing is also known as capital gearing
- A. Only I is correct
- B. Only II is correct
- C. Only II & III are correct
- D. All are correct [2]
- Q. 34)** Which of the following would NOT explain why the PE ratio of the particular company may stand above the average PE ratio of other companies?
- A. The Company's shares are over-valued
- B. Earnings are perceived to be relatively risky
- C. Historical earnings are unusually low
- D. Potential earnings growth is very high [2]
- Q. 35)** Which of the following is NOT a category of financial futures?
- A. Long term interest rates
- B. Bond
- C. Stock index
- D. Currency [2]
- Q. 36)** Which of the following best explains the fact that a consolidated statement of financial position does not show a figure in respect of non-controlling interest?
- A. All of the subsidiaries are wholly owned by the parent company
- B. None of the subsidiaries were acquired as going concerns
- C. The group has no associated undertakings
- D. The parent company has a widespread shareholding [2]
- Q. 37)** "Preference shares are more like debt than equity". Which of the following statements explain this most correctly?
- A. The tax treatment of preference dividends [2]

- B. The ability to buy and sell preference shares
- C. The fixed nature of participation in profits
- D. The ability to make capital gains or losses

Answer Q. 38 to Q. 41 using the following information.

At 31 March '23 the statement of financial position of Pro Trader Ltd. which is a manufacturing company was as follows:

| Assets | INR | INR |
|-------------------------------|------------|----------------|
| Non-Current assets | | |
| Cost | 300,000 | |
| Less Depreciation | 100,000 | |
| | | 200,000 |
| Current assets | | |
| Inventories | | 75,000 |
| Trade receivables | | 12,500 |
| Cash | | 15,000 |
| | | 102,500 |
| Total assets | | 302,500 |
| | | |
| Equity and Liabilities | | |
| Ordinary share capital | | 175,000 |
| Reserves | | 72,500 |
| Total equity | | 247,500 |
| Current liabilities | | |
| Trade payables | | 55,000 |
| Total liabilities | | 55,000 |
| Total Equity and liabilities | | 302,500 |

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

| Heading | Amount (INR) |
|--------------------------------|---------------------|
| Sales | 150,000 |
| Increase in cash | 25,000 |
| Increase in inventories | 20,000 |
| Decrease in trade receivables | 10,000 |
| Increase in trade payables | 2,000 |
| Rent and other expenses | 12,000 |
| Cost of raw materials | 50,000 |
| Wages for staff | 40,000 |
| Purchase of non-current assets | 35,000 |
| Depreciation for 2023 | 31,000 |

Assume tax rate as 16%

Payment of dividend declared for FY 2023 equaling INR 20,000

Depreciation is related to assets used directly for operations of the business

No depreciation is applicable apart from the one mentioned for Year 2023

Q. 38) What is the Profit after tax for the FY 23-24 considering all the information given?

A. INR 31,080

- B. INR 23,520
C. INR 68,000
D. INR 77,280 [3]
- Q. 39)** Given the values for Purchase of non-current assets, Depreciation for 2023, and assuming asset has been depreciated using straight line method, what is the approximate assumed life of the asset? Choose the option that you think is the nearest to the exact number of years
- A. 7.5
B. 8
C. 8.5
D. 9 [2]
- Q. 40)** Compute the value of Current Assets that would be reflected in the Statement of Position as at March '24
- A. INR 100,000
B. INR 125,000
C. INR 137,500
D. INR 145,000 [2]
- Q. 41)** Compute the value of Equity and Liabilities that would be reflected in the Statement of Position as at March '24
- A. INR 312,000
B. INR 323,000
C. INR 350,000
D. INR 341,500 [3]
- Q. 42)** Which of the following statements is NOT true about Recourse Factoring?
- A. Credit risk remains with the original supplier
B. It only provides early payment of invoices
C. It is also known as Invoice discounting
D. It is a loan secured against the invoices and has a fixed value regardless of what the amount that the company sells [2]
- Q. 43)** Limited Liability Partnership differs from a Limited Company, in that,
- A. It has no Memorandum or Articles of Association
B. It is not a separate entity
C. There must be one member with unlimited liability
D. Action cannot be taken against individual members for fraud and negligence [2]
- Q. 44)** A health insurance company allows an inward and outward reinsurance in its business. Which amongst the following in revenue account will be directly impacted?
- A. Net Earned Premium
B. Net Incurred Claims
C. Share Capital
D. Both A and B [2]
- Q. 45)** Peer to Peer Lending is primarily a type of, [2]

- A. Shadow Banking
- B. Project Financing
- C. Non-Recourse Financing
- D. Crowdfunding

Blue jar plc has a debt equity ratio of 1:1.2. The risk-free return is 5% pa, the equity risk premium derived from market is 6.5% pa, and gross cost of debt is 4.5% pa. Its beta is 1.5 and tax on profit is 25%.

Q. 46) Compute the Company's weighted average cost of capital

- A. 9.58%
- B. 10.09%
- C. 9.10%
- D. 9.06%

[3]

Q. 47) Calculate the Beta, if the Company were to repay all its debt

- A. 85.71%
- B. 75.00%
- C. 92.31%
- D. 78.95%

[3]
