INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

November 2026

CB1 - Business Finance

Time allowed: 3 Hours 15 Minutes

Total Marks: 100

Q.1) If a project has a positive net present value, it means that the project is expected to:

A. Reduce shareholder wealth
B. Earn less than the cost of capital
C. Add value after allowing for the cost of capital
D. Have no cash inflows
E. Have a negative payback period

[2 Marks]

Q.2) Depreciation is charged in company accounts to:

A. Record the market value of inventory
B. Allocate the cost of a non-current asset over its useful life
C. Increase cash balances
D. Eliminate all tax liabilities
E. Record the repayment of debt

[2 Marks]

Q.3) Which of the following best defines the primary scope and operational function of corporate governance within a public limited company?

A. Determining product pricing strategies and direct marketing campaigns to maximize quarterly market share.
B. The system of rules, practices, and processes by which a company is directed, controlled, and held accountable to balance stakeholder interests.
C. Managing daily operational cash flows, routine teller transactions, and end-of-day bank balance confirmations.
D. Calculating asset depreciation schedules and maintaining physical fixed-asset registers.
E. Preparing monthly bank reconciliation statements and processing routine accounts payable.

[2 Marks]

Q.4) A higher gearing ratio generally indicates that a company has:

A. Lower reliance on debt finance
B. Higher reliance on debt finance
C. Higher reliance on equity finance
D. Lower fixed interest obligations
E. Greater ability to meet interest payments

[2 Marks]

Q.5) What is "New Business Strain" in life insurance?

A. The excess of claims over premium income in the first policy year
B. The initial capital outflow required when writing new policies due to upfront expenses, commissions, and statutory reserving requirements
C. The financial loss suffered when a policyholder lapses a policy early
D. The delay in processing new policy applications
E. The delay in processing claims expected in new business

[2 Marks]

Q.6) A company is considering a project with a positive NPV, but the project may damage its reputation because of environmental concerns. Which statement is most appropriate?

A. The project must be accepted because NPV is positive
B. Non-financial factors should also be considered before making the decision
C. Environmental issues are irrelevant to investment appraisal
D. The project should be rejected only if accounting profit is negative
E. The payback period alone should decide the outcome

[2 Marks]

Q.7) An independent non-executive director challenges management's forecasts before approving a major acquisition. Which corporate governance benefit is illustrated?

A. Reduced board oversight
B. Improved scrutiny and accountability
C. Increased agency problems
D. Removal of shareholder voting rights
E. Elimination of all business risk

[2 Marks]

Q.8) An investor purchases ordinary shares of a company. The company subsequently performs exceptionally well and distributes a higher dividend. Which statement is most accurate?

A. The investor's return is contractually fixed
B. The investor benefits from the residual claim on company profits
C. The investor becomes a creditor of the company
D. The company must pay the dividend regardless of available profits
E. The investor is entitled to a predetermined percentage of the company's annual profits

[2 Marks]

Q.9) A firm borrows **Rs 20 lakhs** for **6 months** to meet its short-term liquidity needs at a interest rate of **10% per annum**, with interest payable in advance. Additionally, the bank charges an upfront commitment fee of **0.50%** on the total amount borrowed.What is the annualised effective financing cost of the arrangement, calculated as a percentage of the net amount of funds received by the firm.

A. 10.50%
B. 11.00%
C. 11.64%
D. 11.26%
E. 12.10%

[2 Marks]

Q.10) Share A has a beta of 0.8 and Share B has a beta of 1.5. If both offer the **same expected return**, which conclusion is most appropriate under CAPM?

A. Both are correctly priced
B. Share A must have a higher systematic risk premium
C. At least one share may be mispriced relative to CAPM
D. Beta has no relevance to expected return
E. both B&C are correct

[2 Marks]

Q.11) Gamma Ltd. reports strong revenue growth of **25%** during 2026. However, management is concerned because cash balances have declined significantly.

The following information is available:

Particulars	**₹ lakh**
Revenue	20,000
Cost of Sales	13,000
Operating Expenses	4,200
Finance Cost	700
Inventory	4,000
Trade Receivables	5,000
Cash	400
Current Liabilities	6,000
Long-term Debt	7,500
Equity	10,000

Assume all sales are credit sales and use 365 days.

Required:

i) Calculate:

a) Gross Profit Margin and Operating Profit Margin
b) Net Profit Margin
c) Current Ratio
d) Quick Ratio
e) Inventory Turnover Ratio
f) Receivables Collection Period
g) Interest Coverage Ratio
h) Return on Equity

[8]

ii) Despite a 25% increase in revenue, explain why the company's liquidity position may have deteriorated. **[4]**

iii) Assess whether the company should raise additional debt to finance further expansion. Give reasons based on the ratios. **[5]**

iv) Identify two additional pieces of financial information you would require before making the financing decision. **[4]**

Consider Tax rate to be 0%

[21 Marks]

Q.12) A company has 20 million ordinary shares in issue, currently trading at ₹85 per share. It announces a 1-for-4 rights issue at ₹68 per share.

i) Calculate the theoretical ex-rights price. **[4]**

ii) Calculate the theoretical value of the right attached to each existing share. **[3]**

iii) Explain why the market price after the rights issue may differ from the theoretical ex-rights price. **[4]**

[11 Marks]

Q.13) Explain the concept of Shadow Banking. What risk does it pose? Also explain the possible advantages the shadow banking sector might have over the traditional banking sector. **[12 Marks]**

Q.14) Discuss the advantages and limitations of maximising shareholder wealth as a primary objective for a company. Explain whether maximising shareholder wealth may conflict with the interests of other stakeholders, such as employees, customers and society. **[8 Marks]**

Q.15) Explain why real estate companies may rely significantly on long-term debt to meet their capital requirements rather than raising all their finance through equity. Critically examine the financial rationale for doing so.

[8 Marks]

Q.16) The trial balance extracted from the books of **Aegis Life Insurance Co. Ltd.** as of **31 March 2026** is as follows:

Particulars	**Debit (₹)**	**Credit (₹)**
Life Assurance Fund (01.04.2025)	—	40,50,000
Premiums Received	—	18,00,000
Claims Paid	7,50,000	—
Commission Paid	1,80,000	—
Management Expenses	2,20,000	—
Investment Income (Interest & Dividends)	—	3,20,000
Surrenders Paid	1,20,000	—
Annuities Paid	80,000	—
Investments (Government & Corporate Bonds)	48,00,000	—
Ordinary Share Capital (₹10 par)	—	10,00,000
Cash and Bank Balances	6,70,000	—
Property & Equipment (Net Book Value)	3,50,000	—
Total	**71,70,000**	**71,70,000**

Additional Information at 31 March 2026:

1. **Outstanding Premiums:** Premiums of **Rs.1,50,000** were due but had not yet been collected.
2. **Outstanding Claims:** Claims of **Rs.1,00,000** had been admitted but remained unpaid at the year-end.
3. **Accrued Expenses:** Management expenses of **Rs.30,000** had been incurred but had not yet been paid.
4. **Actuarial Liability:** The Appointed Actuary determined the present value of future benefits at Rs.62,00,000 and the present value of future net premiums at Rs.14,00,000.

5. **Bonus Allocation:** The directors resolved that 90% of the net actuarial surplus be allocated to participating policyholders as a reversionary bonus, with the remaining 10% transferred to shareholders.
6. Ignore taxation, reinsurance, depreciation and any other adjustments not specifically mentioned above.

Required:

i) Prepare the **Revenue Account (Life Assurance Fund)** for the year ended 31 March 2026. **[6]**

ii) Prepare the **Valuation Balance Sheet** as of 31 March 2026 to determine the net surplus and its allocation. **[4]**

iii) Prepare the **Statement of Financial Position (Balance Sheet)** as of 31 March 2026. **[6]**

iv) With reference to the figures calculated above, explain why the surplus arising from the Revenue Account cannot automatically be regarded as the surplus available for distribution to policyholders and shareholders. **[4]**

[20 Marks]

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