INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business Finance 1

Chapter: Unit 1 & 2

Category: Assignment 1

1. Preference shares are generally considered as being more like debt than equity. Which of the following appropriately explains this?
   A. The tax treatment of preference dividends
   B. The marketability of preference shares
   C. The fixed nature of participation in profits
   D. The ability to make capital gains or losses

2. Which of the following statement is not true in case of limited companies?
   A. If shares have been issued 'partly paid' then in the event of liquidation, shareholders will only be liable to pay the outstanding installments.
   B. If the shares have been issued on 'partly paid' basis, at a premium to their par value, only a part of this 'share premium' is payable at the outset.
   C. If the company becomes insolvent, creditors cannot claim further payment from the shareholders personal wealth beyond the fully paid value of their shares.
   D. Article of Association set out the internal rules for running the company

3. Which of the following correctly describes operating leases?
   I. The owner of the asset will retain most of the risks associated with owning the asset.
   II. The leaser takes on most of the risks associated with owning the asset.
   III. The lease will be for a period similar to the likely life of the asset.
   IV. The lease will be for a period substantially shorter than the likely life of the asset.

   A. Only I and III are correct.
   B. Only II and III are correct.
   C. Only II and IV are correct.
   D. Only I and IV are correct.

4. Which one of the following is the goal of the Financial Manager?
   A. To invest in projects if the rate of return is greater than the cost of borrowing.
   B. To invest in projects that display a positive net present value.
   C. To determine a range of social objectives beyond making profits.
   D. To focus attention on the impact of company's operation on climate change

5. In case of winding up of a company, who among the below list gets the highest preference for final payoff?
   a. Employees
   b. Preference Shareholders
   c. Floating Charge Debenture Holders
   d. Trade Creditors

6. Which of the following is not a feature of commercial paper?
    a. Commercial Papers are bearer documents & can be transferred by sale
    b. Commercial Papers are repaid with face value plus agreed interest rate which usually exceeds Government securities
    c. Commercial Papers are unsecured in nature
    d. Commercial Paper is a form of short-term borrowing

7. i) Why is the effective corporate tax rate often lower than the statutory tax rate?
ii) How can corporate income tax policies be used to influence corporate behavior regarding profit distribution and reinvestment?

8. Go-mobile is a listed company developing mobility aids. Go-mobile was purchased by a group of private shareholders and is no longer quoted on stock exchange. Discuss the advantages and disadvantages to various stakeholders for Go-mobile becoming a private company.

9. Elaborate with examples that the interests of shareholders and lenders can conflict.

10. i) "Industry and government should co-operate in establishing rules for corporate behaviour, so that firms strive to maximise shareholder wealth within external constraints".

    Explain why rules need to be established for corporate behaviour.
    ii) Describe the salient features of bills of exchange.

11. Your friend will be interviewed for the position of Finance Manager tomorrow. Amongst several other questions that he is preparing for, he seeks your help on the following three questions. Please advise him.
    i) What is the primary objective of a Finance Manager?

    ii)What factors influence his decisions while trying to achieve his primary objective?

    iii) State any two factors that decide how an asset is financed?

12. Define the following term: i) Warrant

13. i) List four types of medium term finance and four types of short term finance

ii) Which one is more expensive – short term finance or long term finance and why?

14. i) List the major type of business entities and differentiate their characteristics with relation to ownership, liability, and legal status.

ii) An individual is contemplating opening a business trading in certain goods. He has short listed two options, either to start as a Sole Trader or float a limited company with the help of his friends. Only from the point of view of minimizing the tax amount, suggest, with appropriate reasons, a form of business entity he should opt for.

15. i) Explain the primary difference between a mortgage debenture and floating charge debenture?

ii) Explain the remedies available to the holders of following financial instruments in the case of default by the issuing company:
a) Floating charge debentures & mortgage debentures
b) Unsecured loan stock

iii) A friend states that "unsecured loan stock is an extremely risky asset and hence best avoided. It is very certain that the holder will lose his capital." Counter-argue the statement.

16. A newly qualified actuary is starting an actuarial consultancy. In order to start the consultancy, she needs large amount of capital for the purchase of property and furniture.
She decides to borrow quite heavily.
However, she is worried about the risk of losing her personal assets in case of business liabilities. A friend has suggested incorporating this business as a limited company in order to avoid all personal risk associated with business liabilities.
Explain whether incorporation as a limited company would be likely to be a cost-effective way of avoiding personal liability for the consultancy's borrowings.

17. What type of long-term financial instrument would you recommend to the following investors:
A. Gabrielle who is her early 40s, has a huge sum of money given to her by her millionaire husband and no financial obligations. She is an optimist who enjoys playing poker with other society ladies even though she sometime loses.

B. Susan also in her mid 30s, who has inherited a decent fortune from a distant relative. She is a school teacher and currently paying off a debt. She would like to use this money to build a college fund for her five year old son.

Give reasons in support of your suggestions and also mention the main features of the investments suggested

18. i) What are the three key adjustments to accounting profit to arrive at taxable profits?

ii) Give two examples of tax free income and tax free expenditure each while calculating taxable income under Indian Tax Laws.

iii) Give three examples of exceptions to chargeable capital gains tax.

19. What is an agency cost and when is it incurred?

20. There are conflicting objectives between different stakeholders of any company. Give any one example of conflicts that may arise between
i) Shareholders and Managers
ii) Shareholders and providers of finance
iii) Managers and workers
iv) Shareholders and local community
v) Managers and Customers