



Subject: Business finance 1

Chapter: Unit 1

Category: Practice question

1. CT2 April 2011 Question 11

Comment on the suggestion that the interests of shareholders and lenders can conflict.

2. CT2 April 2011 Question 12

Simon established an actuarial practice several years ago. The business has been successful. One of Simon's longest-serving actuaries has started to look for alternative employment and Simon is considering offering her a partnership in the practice.

Discuss the implications for Simon of making this employee a partner.

3. CT2 April 2011 Question 14

Explain why tax legislation does not permit depreciation as an- expense for tax purposes but grants a capital allowance instead.

4. CT2 April 2012 Question 14

Four engineers have established a company to manufacture a new product that they have patented. Each of the directors owns 25% of the company's equity. They have employed a qualified accountant to manage the company's record-keeping and to engage with potential lenders on the company's behalf.

Describe the respective legal responsibilities of both the company's directors and its accountant in relation to record-keeping and lenders.

5. CT2 April 2012 Question 11(updated)

Explain why, from a tax perspective, many individual shareholders prefer to earn a return from an increase in the share price rather than payment of a dividend.

6. CT2 October 2012 Question 12

Discuss the implications of the threat of a takeover for the behaviour of a quoted company's directors.

7. CT2 October 2012 Question 11

Two actuaries are considering establishing a consultancy business and are considering incorporating as a limited company. The company will have to borrow in order to raise sufficient finance to get started. The actuaries would have to pledge personal guarantees before a bank will grant a loan to their company.

Discuss the benefits of incorporating as a limited company in these circumstances.

8. CT2 October 2012 Question 14

Describe the implications for companies if it is not clear whether a significant expense is permissible for tax purposes.

9. CT2 April 2013 Question 12

Sarah recently inherited a substantial sum of money. Her friend Tom is a successful businessman who owns a small factory. Tom is a sole trader. He has offered Sarah the opportunity to become a sleeping partner in his business. She will invest £200,000 of her inheritance in return for a partnership share of 30% of all future profits. She will not take any part in the running of the business. The business is profitable and is struggling to keep up with demand, so the expansion will probably be successful.

Describe the risks that Sarah will be taking on if she enters into this arrangement with Tom.

10. CT2 September 2013 Question 11

Describe the advantages of establishing a business as a limited liability partnership rather than a traditional partnership.

11. CT2 September 2013 Question 19(part)

Paul has developed and patented a new product. He requires finance in order to put the product into production. A venture capital company has offered to finance Paul on the basis that Paul will incorporate his business as a limited company. The venture capitalist will provide all of the funding necessary to commence the manufacture and sale of the new product in return for 51 % of the equity in this new company. The venture capitalist will appoint a board member and Paul will also be a director of the company. Paul will sign a five years employment contract with the company.

Paul's role with the company will be to work on improvements to the original product and to develop new products for sale by the company. In addition to working full-time as an employee, he must patent any new ideas in the company's name.

The company will be independently valued at the end of its first five years. The venture capitalist will then offer Paul the opportunity to buy its 51 % holding for that proportion of the independent valuation plus 20%. If Paul does not take that offer then the venture capital company will retain its shareholding and the question of Paul's contract will be reviewed by both, sides.

Discuss the benefits of this arrangement to both Paul and the venture capitalist.

12. CT2 September 2014 Question 11

Explain why the market prices of shares are generally regarded as unbiased reflections of the shares' "true" value.

13. CT2 April 2015 Question 11

In many countries capital gains are only taxed when the taxpayer disposes of the asset on which the gain has arisen. Describe the implications of delaying the taxation of capital gains until the asset has been sold.

14. CT2 April 2015 Question 20 (part)

Exesses is a family-owned company that is in the process of recovering from a major corporate scandal. Exesses is a substantial business that is not quoted. None of its

shareholders owns more than 5% of the equity shares. None of the shareholders is able to take an active role in the company's management.

Exesses' directors were all forced to step down because of the discovery that the directors had been overstating reported profits, which had the effect of inflating their profit-related bonuses. The directors also provided themselves with lavish lifestyles at the company's expense. For example, the company provided chauffeur-driven limousines to transport the directors on both business and personal travel.

The entire board of Exesses has resigned. The shareholders have met and have appointed a new chairman and a chief executive. Neither of these appointees have had anything to do with Exesses in the past. They have both agreed that their first priority is to appoint a new board and to structure the management arrangements so that the shareholders' confidence is restored.

The chairman has suggested that the new board should be structured as follows:

- The chairman will work on a part-time basis and will be responsible for the management of the board, including chairing board meetings. The chairman will be paid a fixed annual salary that offers an appropriate rate for the time that he is expected to commit to the company.
- The chief executive will be employed on a full-time basis to manage the company itself and will receive both a substantial salary and a profit-related bonus.
- Four additional full-time directors will be appointed to take charge of particular areas such as marketing and finance. Each will receive a similar package to the chief executive.
- Two part-time directors will be appointed to participate in board meetings and to review corporate strategy. They will be paid a fixed salary.
- The chief executive and each of the full-time directors will receive a 5% shareholding after satisfactorily completing three years on Exesses' board.
- The chairman and the two part-time directors will appoint a new external audit firm. They will negotiate a contract with a much larger firm than the outgoing auditor and will pay a larger fee for the new auditor's services.

Discuss the suitability of the proposals for the appointment and remuneration of the new board of directors from the perspective of maintaining shareholder confidence.

15. CT2 September 2015 Question 16

Describe ways in which governments can use taxation to incentivize pensions saving.

16. CT2 April 2016 Question 11

Describe the role of tax in determining whether an individual shareholder would prefer to receive a dividend or a capital gain.

17. CT2 September 2016 Question 11

Describe why a country might enter into double taxation agreements with other countries.

18. CT2 September 2016 Question 15

Unit 1

PRACTICE QUESTION

Describe the role of the capital markets in disciplining company performance.

19. CT2 April 2017 Question 13

Describe why some individual taxpayers may prefer to receive investment returns in the form of capital growth rather than dividend.

20. CT2 April 2018 Question 11

Joan is an actuarial consultant who has operated as a sole trader for several years. She has decided to bring Frank, a colleague, into the business.

Describe the advantages to Joan of a traditional partnership over a limited company for the business arrangement with Frank.

21. CB1 April 2019 Question 11

Discuss the proposition that businesses should take account of social responsibility when conducting their operations.

22. CB1 September 2020 Question 11

Describe how guidance such as that contained in the UK Corporate Governance Code might reduce concerns arising from agency theory.

23. CB1 April 2022 Question 14

Describe the implications of agency theory for the regulation of corporate governance.