



Subject: Business finance 1

Chapter: Unit 2

Category: Practice question

MCQ Questions

1. CB1 April 2019 Question 4

When does a bondholder receive the nominal value of a bond?

- A. At the time of purchase.
- B. Annually.
- C. Whenever coupon payments are made.
- D. At maturity.

Answer – D

2. CB1 April 2021 Question 4

A company has issued subordinated debt securities. Which of the following reflects the priority that would apply in the event of default?

- A. Mortgage loans first, followed by preference shares, then equity shares, then subordinated debt.
- B. Mortgage loans first, followed by preference shares, then subordinated debt, then equity shares.
- C. Mortgage loans first, followed by subordinated debt, then preference shares, then equity shares.
- D. Subordinated debt first, followed by mortgage loans, then preference shares, then equity shares.

Answer – C

3. CB1 September 2023 Question 5

An airline requires the use of an aircraft for the next 3 years. The aircraft's purchase price is \$60 million. H Bank has agreed to lease the aircraft to the airline for 3 years. The airline will have exclusive use of the aircraft for 3 years, after which it will be returned to H Bank. The lease payments have a present value of \$20 million. What type of finance is the airline using?

- A. Bank loan
- B. Credit sale
- C. Finance lease
- D. Operating lease.

Answer - D

Long questions

1. CT2 April 2010 Question 13

An unquoted company wishes to raise a large loan in order to invest in a major new project. The finance director has proposed issuing bonds that have a

Unit 2

PRACTICE QUESTION

significant number of warrants attached.

Describe the advantages and disadvantages to the company's existing shareholders of attaching warrants to the bond issue.

2. CT2 September 2010 Question 11

Explain why a small business should take great care in managing its overdraft.

3. CT2 September 2010 Question 13

Explain why Eurobonds tend to offer investors a higher rate of return than traditional loan stock.

4. CT2 April 2011 Question 13

Explain why preference shares are generally accounted for as debt rather than equity.

5. CT2 September 2011 Question 11

Trade credit and debt factoring are both used to provide businesses with short term finance. Describe the main features of each.

6. CT2 September 2011 Question 13

A company requires finance in order to expand. Explain how the company's tax position may affect the decision to use debt rather than equity.

7. CT2 September 2011 Question 17

Explain why it may not be appropriate for management to choose the least expensive source when raising fresh finance.

8. CT2 April 2012 Question 12

Martha is seeking funding for a company that she wishes to establish. Her plans involve too much risk for a conventional bank loan but a venture capital company has offered to invest in convertible loan stock.

Discuss the disadvantages to Martha of funding her company by issuing convertible loan stock to a third party

9. CT2 April 2012 Question 15

Explain how a lessee can take on the risks and rewards of ownership of an asset, even though the leased asset remains the property of the lessor.

10. CT2 April 2012 Question 16

Explain how there could be a conflict between the interests of directors and shareholders over the raising of additional finance, where the directors would prefer the company to issue equity and the shareholders would prefer the company to borrow.

11. CT2 April 2013 Question 11

Explain whether a loss-making company should allow for the effects of tax when deciding whether to raise fresh finance through debt or equity.

12. CT2 April 2013 Question 13

A company's directors are considering issuing redeemable preference shares as an alternative to borrowing. They believe that the company is too close to its borrowing capacity and so equity is preferable to debt.

Outline the implications for the company of issuing redeemable preference shares in these circumstances.

13. CT2 April 2013 Question 14

Explain why finance leases have to be accounted for on the basis that the asset and an associated liability must appear in the lessee's statement of financial position, even though the lessee does not own the asset.

14. CT2 April 2014 Question 11

A quoted company has raised finance using both debt and equity instruments that are publicly traded. One of the company's major investment projects has failed. As expected, the market value of the equity shares has declined in response to this news, but the value of its debt instruments has remained unchanged.

Explain why it is possible that debt would not decline in value in these circumstances.

15. CT2 September 2014 Question 12

Discuss the circumstances in which non-recourse factoring might be an appropriate means of obtaining finance.

16. CT2 April 2015 Question 12

Describe the advantages and disadvantages of issuing debenture stocks in order to raise finance.

17. CT2 April 2015 Question 13

A software development company is considering raising funds to expand the business. The company's only significant asset is the office block that it uses to accommodate its programming and administrative functions.

Explain the potential implications of raising funding through a sale and leaseback arrangement on the company's office block.

18. CT2 September 2015 Question 13

Discuss the potential advantages and disadvantages of using a finance lease to acquire an asset rather than borrowing the cost of the asset in order to purchase it outright.

19. CT2 April 2016 Question 12

Describe the advantages and disadvantages to existing shareholders of funding expansion using convertible loan stock.

20. CT2 April 2018 Question 12

Describe the usefulness of bank overdrafts in managing a company's working capital requirements.

21. CB1 April 2019 Question 12

Describe whether preference shares should be treated as debt rather than equity when evaluating a company's gearing.

22. CB1 April 2024 Question 12

H is a software designer who is working on a program that has a large potential market. H requires a large injection of funding to complete the development and fund the marketing of their program. They are considering offering convertible loan stock to potential investors.

Explain the advantages and disadvantages to H of issuing convertible loan stock.



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES