



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 lessee 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 in 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 sometimes 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

- 21.** Internal growth is preferred by firms that wish to:

- A. avoid unnecessary Government intervention.
- B. expand geographically.
- C. to share the financial burden and the risk of the project.
- D. to acquire assets or experience.

- 22.** Which of the following is not an advantage of external growth against internal growth:

- a. An easier & quicker method of growth

- b. An opportunity to acquire experience of the target company
- c. An opportunity to use spare cash for a mature company
- d. Avoids the risk of dealing with firms that lack integrity

23. Company A is a smartphone manufacturer seeking to reduce production costs and improve product delivery timelines. It enters into a strategic agreement with Company B, which manufactures microchips, and Company C, a logistics firm specializing in international shipping. This agreement allows them to share production data and co-develop solutions to streamline the supply process.

From a corporate finance and strategy perspective, this arrangement is best described as:

- A. A horizontal alliance aimed at increasing market share through product diversification.
- B. A vertical alliance designed to improve efficiency across different stages of the value chain.
- C. A backward integration strategy that removes the need for third-party logistics.
- D. A joint venture formed to eliminate all external dependencies in the supply chain.

24. A firm's cumulative capital requirement graph shows frequent spikes above the long-term financing line, but the average capital requirement remains below the long-term funding level. What is the most appropriate financial strategy for the firm to minimize unnecessary costs?

- A. Increase long-term financing to match the highest capital spike
- B. Rely entirely on long-term financing and avoid short-term borrowing
- C. Keep long-term financing at average capital requirement and use short-term borrowing for temporary spikes
- D. Maintain zero short-term debt by holding cash reserves at all times

25. A firm has the following financial metrics:

Return on equity (ROE): 12%

Plowback ratio: 70%

Equity-to-net assets ratio: 0.6

What is the firm's internal growth rate, assuming no external financing?

- A) 5.04%
- B) 6.30%
- C) 8.40%
- D) 10.08%

- 26.** Which of the following best describes the primary objective of preparing a cash budget?
- A) To track profitability and earnings over the financial year
 - B) To estimate future changes in the firm's equity capital
 - C) To assess the timing of cash inflows and outflows for liquidity management
 - D) To allocate long-term investments across various asset classes

- 27.** Branix Ltd, a publicly listed consumer goods company, has been underperforming for several years due to inefficiencies in production and bloated overhead costs. Two competing bids have been made to acquire the company:

Bid A is led by EdgeStone Partners, a private equity firm proposing to finance 90% of the deal with debt and plans to delist the company post-acquisition. Their strategy includes aggressive cost-cutting, asset divestment, and replacing senior leadership.

Bid B comes from Branix's current management team, who are seeking to acquire the firm through a high-debt structure with support from a bank. They argue that they can turn the company around with better internal controls and operational discipline, while preserving most jobs.

- a) Classify each bid as either a Leveraged Buyout (LBO) or a Management Buyout (MBO), justifying your classification.
 - b) Discuss one key risk and one potential benefit associated with each type of buyout in this case.
- 28.** Finance team of ABC Ltd, which wants to raise capital for expansion, is debating whether to issue debt or equity? A junior analyst has come up with a suggestion to issue convertibles instead. Justify the junior analyst's stance.
- 29.** ABC Ltd decides to buy back its own shares rather than make a distribution in the form of a dividend. State the reasons for ABC doing so and effects on the shareholders.

- 30.** ABC Ltd, a large player in hospitality sector is a listed company and the company has been following policy of reinvesting profits in order to fund growth. As a result, the company has attracted shareholders whose tax positions tend to favour capital gains over dividends. The industry faces some difficulties that will slow down investment opportunities for the next three to four years. Explain whether ABC Ltd is likely to change its dividend policy over the period of limited investment opportunities and how it should communicate this change.
- 31.** The Chief Executive Officer AYZ company suggest a change in the capital structure of the company to finance its overall operations by borrowing rather than issuing further share capital. Describe how the capital structure of a company might affect the share price.
- 32.** “Define the following terms along with appropriate examples.
(i) Liquidity Preference
- 33.** Several insurance companies in India have recently listed on the Indian stock exchange. Is the listing likely to affect their dividend policy and how? How does conflict of interest affect a risk management program?
- 34.** Briefly explain the factors that can influence the dividend policy of a company
- 35.** State Modigliani and Miller’s irrelevance propositions.
- 36.** Why does a company use the share buy back method to distribute cash dividends? Explain briefly the procedure or different ways to repurchase shares?
- 37.** Describe in brief why companies would want to grow larger?
- 38.** Write a brief on: Different steps taken in an acquisition

- 39.** State the different methods of achieving internal growth
- 40.** Define cash cycle. State the formula of Cash cycle and also all the related terms used in the formula.



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