

**PPSAS105
Business Finance**

Time: 2 hours
Total Marks: 60

Note:

- 1. The candidate has option to either attempt question 4A or question 4B. Rest all questions are mandatory.**
- 2. Numbers to the right indicate full marks.**
- 3. The candidates will be provided with the formula sheet and graph papers (if required) for the examination.**
- 4. The candidates should only write the option alphabet for answers in case of the MCQ based questions.**
- 5. Use of approved scientific calculator is allowed.**

Q1– Multiple Choice Questions (1.5 mark each)

15 Marks

1. A company's profit for corporation tax purposes is different from its profit for accounting purposes. Which of the following could account for this?

- I. depreciation is not allowed as an expense for tax purposes
- II. taxable profit is calculated for the tax year and not the accounting year
- III. taxable profit is calculated on a totally different basis from accounting Profit

- a. I only
- b. II only
- c. I and II above
- d. I and III above

2. Which of the following instruments is often used by companies that require a regular series of payments –

- a. Commercial Paper.
- b. Leasing.
- c. Bills of exchange.
- d. Invoice Discounting.

3. A medium sized company in a low growth industry is considering to borrow loan capital that will result in to a highly geared company. Based on market expectations what is the likely impact to the share value of the company?

- a. Share value is expected to diminish
- b. Share value is expected to increase
- c. There is no impact of gearing on share holders' returns.
- d. None of the above

4. Which of the following statements about taxation is false?

- a. Taxation is often based on cashflows
- b. The marginal rate of tax generally decreases as income increases
- c. Taxation is usually assessed in arrears
- d. Companies pay corporation tax on their taxable profits

5. Which of the following is not the goal of a financial manager?

- a. to maximize the share price
- b. to invest in projects that display a positive net present value
- c. to invest in projects if the rate of return is greater than the cost of borrowing
- d. to maximize shareholder's wealth.

6. A company's profit after tax for FY 2022-23 is INR 100 crore. Issued share capital consists of 50 crore ordinary shares of face value INR 5 each. There are no preference shares. A dividend of 50 paise per share is paid for the period and the market price per ordinary share is INR 15. Dividend cover and dividend yield respectively for the period are: There are information asymmetries in financial system the repo rate.

- a. 1 and 3.33%
- b. 2 and 3.33%
- c. 1 and 4%
- d. 4 and 33%

7. Which of the following instruments is often used by companies that require a regular series of payments –

- a. Commercial Paper.
- b. Leasing.
- c. Bills of exchange.
- d. Invoice Discounting

8. $r_f + \beta (r_m - r_f)$, In this formula what is $(r_m - r_f)$?

- a. Return on Market
- b. Market Risk Premium
- c. Risk Free Rate
- d. None of the above

9. Which of the following are part of Annual Financial Statements?

- a. Trial Balance
- b. Balance Sheet
- c. Cashflow Statement
- d. b & c both

10. Which of the following best describes the effects of an increase in the risk characteristics of a project when evaluating its net present value?

- a. The discount rate increase and the net present value increase.
- b. The discount rate remains constant, But the present value decreases.
- c. The discount rate increase and the net present value decrease.
- d. The discount rate decrease and the present value decreases.

Q2. Attempt all questions

15 Marks

A)

5 Marks

You are the CFO of a healthcare company. The Company's board is planning to revise the company's investment appraisal process.

They need to make a presentation of the concept of opportunity cost and how it might impact on the selection of projects. Outline the points you would make with an example. Also, can a company use the same opportunity cost for all the projects.

B)

5 Marks

A newly formed country is debating whether it should mandate compliance with the International Accounting Standards. As a reputed member of the accounting profession in a neighbouring country, you have been asked for your advice to explain key accounting concepts of Going Concern, Accrual, Historical Cost, Matching Concept with examples.

C)

5 Marks

The automobile company is recently growing in the market and has started generating profits. It is in a crucial decision making process of deciding the level of dividend that must be appropriate. List the factors that affect the company's decision and should be considered by the company before any decision.

Q3. Attempt all questions**15 Marks****A)****5 Marks**

Alpha and Beta are 2 life insurance companies listed on the stock exchange. The shares of both companies have a face value of Rs 100 per share with following details

Company	Market Price of Share	P/E Ratio	Book Value of Net Assets
Alpha	900	10	650
Beta	750	15	400

- a) Explain possible reasons why the Price Earnings Ratio would differ between the two companies significantly? (2)
- b) Outline reasons why the ratio of Market Price: NAV would vary significantly between the companies? (2)
- c) calculate Earnings per share (EPS) of both companies. (1)

B)**5 Marks**

Statements of financial position for Company KK Limited and Company PK Limited are shown below. Face Value of share in KK Limited is INR 10, and those in Company PK Limited is INR 5.

All Vales in INR Millions		
Particulars	KK Limited	PK Limited
Non-current assets	200	300
current assets	500	300
Share capital	550	250
Reserves	100	240
Current liabilities	50	110

Calculate the goodwill assuming that Company KK Limited's shares are priced at par, and that Company PK Limited's shareholders are offered 1 share in Company KK Limited for every 1 share in Company PK Limited when Company KK Limited acquires:

- (a) 100% of Company PK Limited (3)
- (b) 70% of Company PK Limited. (2)

C)**5 Marks**

Explain how tax might influence the shareholders' preference for debt financing versus equity financing in the company's gearing decision

Q.4 Attempt Q4A or Q4B

Q4A

15 Marks

I. Explain when an organization would opt to be company as an entity rather than any other form of entity. (3)

II. Describe the advantages/disadvantages to various stakeholders of the company form of entity. (4)

III. The company makes widgets, a component required by the widget-making industry. The company has issued both share capital, including ordinary and preference shares, and loan capital: some fixed-charge debentures secured on the company's factory, and an unsecured loan stock. The company has borrowed money from the bank using a flexible loan facility.

It has also pushed its overdraft to the limit. The company has trade credit agreements with its suppliers and is buying some machinery on hire purchase.

The company has had a bad year owing to a recession, which has hit the widget industry particularly hard. Its profits are down to such an extent that it is unable to pay the interest on the unsecured loan stock, although the debenture interest payments are made in full.

The unsecured loan stock holders have a meeting and decide to sue the company. Their claim is successful and the court orders the company to be wound up.

Analysis the situation and accordingly describe how the assets are sold and the various lenders receive payment. (8)

Q.4B

15 marks

The following information has been extracted from the bookkeeping records of Krish Pharma Private Limited:

Trial balance as at 31 March 2022 All Amounts in INR Lakhs

Particulars	Debit	Credit
Administrative overheads	25	
Advertising	200	
Bank	5	
Dividend paid (for FY 2021-22)	50	
Trade payables		60
Trade receivables	90	
Interest	120	

Land and buildings cost	980	
Land and buildings depreciation		125
Provision for Gratuity (before Actuarial Valuation)		20
Loan		500
Directors remuneration	35	
Plant and machinery cost	550	
Plant and machinery depreciation		150
Retained earnings as at 1 April 2021		180
Purchases	450	
Revenue		1,200
Share capital		200
Share premium		300
Inventories as at 1 April 2021	16	
Wages administrative staff	44	
Wages distribution staff	30	
Wages manufacturing	140	
Total	2,735	2,735

Notes

1) Inventories at 31 March 2022 were valued at INR 10 lakhs.

2) Depreciation is to be charged on the following bases: Land and buildings 5% of cost, Plant and machinery 20% of reducing balance.

3) Closing Provision for Gratuity as per Actuarial Valuation is INR 25 lakhs.

4) The corporation tax charge at 20% of Profit before tax (Accounting profit).

Prepare Krish Pharma Private Limited's statement of profit or loss for the year ended 31 March 2022 and its statement of financial position as at that date, as per Indian GAAP - Accounting Standards.