

PUSASQF203
Business Finance-II

Time: 2 hours
Total Marks: 60 marks

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 should only write the option alphabet for answers in case of the MCQ based questions.
- 4) Use of approved scientific calculator is allowed.

Q1.

15 Marks

- 1) 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%
- 2) Which is the best measure of the cost of retained profits in a business?
 - a. Retained earnings are a cost-free source of finance.
 - b. The cost of retained earnings is the same as that of the weighted average cost of capital (WACC) of the company
 - c. The cost of retained earnings is the same as that of ordinary share capital.
 - d. The cost of retained earnings is the same as that of preference shares.

- 3) While calculating Inventory turnover period, Inventories include?
- Finished goods
 - Work-in-progress
 - Raw material
 - All of the above
- 4) Which of the following instruments is often used by companies that require a regular series of payments –
- Commercial Paper.
 - Leasing.
 - Bills of exchange.
 - Invoice Discounting
- 5) Which of these can be classified as a systemic risk?
- Bond defaults in the company's asset portfolio
 - Demonetisation
 - Reputational damage / bad publicity
 - High operating costs
- 6) Which of the following statements is true?
- All equity shares would have the same level of systematic risk if all companies had the same level of gearing.
 - If a company increases its level of gearing it will increase its level of specific risk.
 - Systematic risk can be eliminated by investing in a large, diversified portfolio of assets.
 - Increasing a company's gearing can reduce its weighted average cost of capital in a taxed environment.
- 7) $r_f + \beta (r_m - r_f)$, In this formula what is $(r_m - r_f)$?
- Return on Market
 - Market Risk Premium
 - Risk Free Rate
 - None of the above
- 8) Which of the following best describes the effects of an increase in the risk characteristics of a project when evaluating its net present value?
- The discount rate increase and the net present value increase.
 - The discount rate remains constant, But the present value decreases.
 - The discount rate increase and the net present value decrease.
 - The discount rate decrease and the present value decreases.

9) Out of the following the only item which appears in a Trial Balance is?

- a. Contingent liabilities
- b. Closing stock
- c. Addition to assets or assets purchased during the year
- d. Cumulative depreciation

10) Which of the following are part of Annual Financial Statements?

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

Q2.

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

Purchase price of Fixed Asset is INR 1.25 crore; it is estimated that it will fetch INR 12.50 lakhs at the end of useful life of 7 years. Prepare depreciation chart and book value of assets at the end of each year as per Written down value method (reducing balance method) and Straight line method.

Q3.**A.****5 Marks**

For each of the following ratios: -

Lesta Motors Ltd. acquired 55% of shares in micro blogging platform Iwitter as on 31.3.2022 for Rs 8 lakhs. The summarized balance sheet of Iwitter Ltd. as on 31.3.2022 is given below:

Share Capital	8,00,000
Reserves and Surplus	7,00,000
	15,00,000
Fixed Assets	8,00,000
Investments	3,00,000
Current Assets	4,00,000
	15,00,000

Calculate the Goodwill cost of Control of Lesta Motors Ltd.

B.**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

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

C.

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 Marks)
- (b) 70% of Company PK Limited. (2 Marks)

Q4A.

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.

OR

Q4B.

15 Marks

One of the state cricket associations in India is considering building a new cricket stadium to host IPL matches. They are planning to build the stadium together with a gymnasium, hospital and a school at the now unused industrial site, situated in the suburbs of the state's capital city.

Describe the steps necessary to effectively identify risks involved in the project? (6 Marks)

Explain how a risk matrix can be used in the risk analysis process. (4 Marks)

You are the manager of a specialty retailing firm which is considering two strategies for getting into the American retail market.

Under the first strategy, the firm will make a small initial investment of \$ 5 million and can expect to capture about 5% of the overall market share.

Under the second strategy, the firm will make a much larger commitment of \$ 20 million for advertising and promotion and can expect to capture about 10% of the market share. If the overall size of the market is \$ 250 million, the firm's cost of capital is 10% and the typical life of a project in the firm is 10 years, what would the operating margin have to be for the firm to consider the second strategy?

[You can assume that the firm leases its stores and has no depreciation or capital expenditures.]
(5 Marks)