

**M.Sc. ACTUARIAL SCIENCE  
(M.Sc.AS.)**

**Term-End Examination**

**December, 2012**

**MIA-004 (F2F) : FINANCE AND FINANCIAL  
REPORTING**

*Time : 3 hours*

*Maximum Marks : 100*

---

*Note : The questions are divided into three sections*

*Section A : Multiple choice questions.*

*Section B : Short questions.*

*Section C : Long questions.*

---

**SECTION - A**

(Attempt all the questions.)

**10x2=20**

1. Which of the following statement is True for a straight line method of Depreciation ?
  - (a) It is generally used whenever the equal allocation of cost provides a reasonably fair measure of the company's service.
  - (b) The annual depreciation charge represents a fixed percentage of the net book value brought forward.
  - (c) The net book value can never get nil, as it can only be reduced by a proportion each year.

- (d) It is very difficult to calculate and conceptually complex to understand.
2. The main items covered by a company's "Articles of Association" are all except for any one of those listed below :
- (a) The issue of shares, the rights attaching to each class of shares.
  - (b) The procedure for general meeting and for altering the authorized share capital.
  - (c) The procedure for appointment of statutory auditors and for removal of the same after expiry of tenure .
  - (d) The procedure for winding up the company.
3. In times of rising prices, the historical cost convention has the effect of :
- (a) Understating profits and overstating balance sheet items.
  - (b) Understating profits and understating balance sheet items.
  - (c) Overstating profits and understating balance sheet items.
  - (d) Overstating profits and overstating balance sheet items.

4. Which of the following instruments is often used by companies that require regular series of payments ?
- (a) Commercial Paper
  - (b) Leasing
  - (c) Bill of exchange
  - (d) Invoice Discounting
5. A key difference between the net present value technique and the internal rate of return technique for capital budgeting is that :
- (a) The net present value is easier to calculate.
  - (b) That they use different cash flows.
  - (c) That they have different reinvestment rate assumptions.
  - (d) That they are relevant to the shareholders.
6. The debt collection period may increase (decrease) between one period and another for a number of reasons except for any one of those mentioned below :
- (a) If credit is given to unsatisfactory customers
  - (b) Earlier the business had a zero debt collection period

- (c) Credit terms to an existing customer changes.
  - (d) If there is no consistent follow-ups of overdue debts.
7. "The lowest reasonable figure should be stated for profit or for any of the assets and the highest reasonable figure should be stated for any liabilities, without including deliberate margins, when there is uncertainty." Which accounting concept states this ?
- (a) Materiality concept
  - (b) Prudence concept
  - (c) Realization concept
  - (d) Accruals concept
8. Which of the following would NOT be included in a firm's capital structure ?
- (a) Retained Earnings
  - (b) Dividends
  - (c) Capital surplus
  - (d) Convertible Debentures

9. Which of the following is **NOT** a definition of return on capital employed ?

(a) 
$$\frac{\text{Net Profit before interest and tax}}{\text{Share Capital} + \text{Reserves} + \text{Long term debt}}$$

(b) 
$$\frac{\text{Net Profit before interest and tax}}{\text{Share Capital} + \text{Reserves} + \text{Long term debts} - \text{Intangible Assets}}$$

(c) 
$$\frac{\text{Net Profit before interest and tax}}{\text{Market Value of (Share Capital} + \text{Loan Capital)} + \text{Reserves}}$$

(d) 
$$\frac{\text{Total Assets} - \text{Intangible Assets}}{\text{Share Capital} + \text{Reserves} + \text{Long term debts}}$$

10. The needs and the objectives of the shareholders will NOT vary according to which one of the following factor ?

(a) Attitude towards risk

(b) Time preference and consumption needs

(c) Balance between the need for income and capital growth

(d) Attitude towards growth

## SECTION - B

Attempt *any eight* questions from question  
No. 11 to question No. 20. 8x5=40

11. Define following : 2.5+2.5  
(a) Technical and non technical accounts  
(b) Opportunity cost
12. Discuss five factors that influence a company's decision on the level of dividend that might be appropriate. 5
13. Distinguish between systematic risk and specific risk and explain their relevance to capital project appraisal. 5
14. (a) Describe the three main group of ratios.  
(b) List all the ratio's which are a subset of the above group of ratio's. 3+2=5
15. (a) What are the three key adjustments to accounting profit to arrive at taxable profits ?  
(b) Give two examples of tax free income and tax free expenditure each while calculating taxable income under Indian Tax Laws.  
(c) Give three examples of exceptions to chargeable capital gains tax. 1.5+2+1.5

16. In principle, agency cost is incurred to deal with the conflict of interest that arise between various stakeholders. This has led to significant costs associated with monitoring and protecting individual interest. Whereas, if all stakeholders agree to work together in the best interests of the entity, they would benefit significantly without incurring this agency costs. Explain, why it would be difficult if not impossible, to eliminate these agency costs ? 5
17. ABC Life Insurance Company has been in operation in the Indian Insurance Industry for last 10 years. Currently the company's share are not listed on any market. 1+4=5
- (a) List at least two reasons why ABC Life Insurance Company may like to seek a full stock exchange listing.
  - (b) State any four methods for obtaining a quotation with an advantage and disadvantage for each of the methods.
18. Draw up a table to compare an Investment Bank, Building societies, Pension schemes, Life Insurance Companies with respect to : 5
- (a) Role
  - (b) Source of funds
  - (c) Application of funds

19. Describe the purpose of cash flow statement. 5
20. Best transport Ltd. has a Debt : Equity ratio of 1:1. The risk - free rate of return is 8%, the equity risk premium derived from the market is 7% and the gross cost of debt is 4%. The company's beta is 1.25. The profits of the company are taxed at 30%. State any further assumptions you make. 2+3
- (a) Calculate the weighted average cost of capital.
- (b) The company wishes to repay all the debts. What would be the required return to equity in such a situation ?



## SECTION - C

Attempt *any two* questions from question  
No. 21 to 23. 2x20=40

21. (a) Bajaj Ltd. which depreciates its machinery @ 10% p.a. on the written down value method, provides you the following information.

Machinery account as on 1st Jan 2010 :  
Rs. 10,00,000

Accumulated Depreciation account :  
Rs. 2,71,000

No depreciation is charged in the year of sale of machinery but full depreciation charge is being made for the year during which the machinery is purchased. On 1st July 2010, one new machinery was purchased for Rs. 1,60,000 and old machinery purchased on 1st July 2007 for Rs. 1,20,000 was discarded but could not be sold immediately. However, it was expected to realize Rs. 20,000/-

Calculate the depreciation charge for 2010 and 2011 and net profit received from sale of non-current asset in 2010.

- (b) Using the information below, prepare the cash flow statement of Rohit Enterprises for the year 2010.

During 2010, Rohit Enterprises had the following items of income and expenditure :

|   | (Rs.)     |
|---|-----------|
| Increase in finished stocks                   | 40,500    |
| Staff cost                                    | 1,41,900  |
| Dividend income from ABC company              | 12,600    |
| Turnover                                      | 10,86,000 |
| Tax paid                                      | 1,47,360  |
| Increase in cash                              | 71,340    |
| Dividends paid                                | 45,000    |
| Increase in work in progress                  | 6,300     |
| Interest received on 3 months bank deposits   | 10,500    |
| Interest paid on loan stock                   | 16,500    |
| 2010 sales for which payment not yet received | 2,13,000  |
| Payments for 2009 sales received in 2010      | 1,89,000  |
| 2010 raw material purchases not yet paid      | 1,11,000  |
| 2009 purchases paid for in 2010               | 1,20,000  |

The company bought 3 bank note printing machine in January 2010 for Rs. 1,05,000/- each. The total depreciation charge for 2010 was Rs 67,350/-.

On first January' 2010 the company had Rs. 1,50,000/- in cash and Rs. 2,94,000 in a 3 months bank deposit. By 31<sup>st</sup> Dec 2010, it had a Rs. 2,21,340 in cash and Rs. 2,85,000 in three months bank deposit.

Rohit Enterprises operating profit for 2010 was Rs. 5,75,550/-. 7+13

22. Following is the information extracted from the accounting records of Shweta Industries Ltd. Balances of Accounts at 31<sup>st</sup> March 2011 (in '000) 20

|                                     |        |
|-------------------------------------|--------|
| Administration cost                 | 400    |
| Bank overdraft                      | 350    |
| Debtors                             | 650    |
| Factory (start of the yr.) at cost  | 11,650 |
| Factory (end of the yr.)            | 900    |
| Accumulated depreciation            |        |
| Factory running cost                | 600    |
| Loan interest                       | 840    |
| Long term loans                     | 6,000  |
| Machinery (End of the year) at cost | 7,500  |
| Machinery (End of the year )        | 4,000  |
| Accumulated depreciation            |        |
| Manufacturing wages                 | 650    |
| Materials consumed                  | 800    |
| Profit and loss A/c                 | 190    |
| Sales                               | 6,500  |
| Salary                              | 800    |
| Share capital                       | 6,000  |
| Opening stock                       | 150    |
| Closing stock                       | 350    |
| Trade creditors                     | 300    |

**Notes :**

- (a) The corporation tax charge for the year has been estimated at Rs. 6,45,000.
- (b) The directors have proposed a dividend of Rs. 7,00,000.
- (c) At the year end the directors had the factory revalued which estimated at Rs. 1,25,00,000. This value is to be incorporated in the balance sheet.
- (d) During the year the company charged depreciation of Rs. 2,30,000 on the factory and Rs. 1,00,000 on the machinery. The company also purchased a new machinery at a cost of Rs. 13,50,000. There were no other transactions involving fixed assets. All of these adjustments and transactions have been incorporated into the above figures.

Based on the above, prepare profit and loss account for the year ended 31<sup>st</sup> March 2011 and the Balance Sheet as at that date. Provide a note in respect of tangible fixed assets. Clearly show your workings.

23. (a) Based on the following figures taken from a company's published report, you are required to calculate : 2x5=10

- (i) Capital gearing ratio
- (ii) Current ratio
- (iii) Quick ratio
- (iv) Stock turnover using average levels of stock over the year
- (v) Operating profit

Information :

|                         |        |
|-------------------------|--------|
| Current assets          | 19,000 |
| Current liabilities     | 17,000 |
| Inventories             | 11,000 |
| Inventories last year   | 12,000 |
| Long term debts         | 9,000  |
| Revenue                 | 25,000 |
| Cost of sales           | 7,000  |
| Distribution costs      | 3,000  |
| Administrative expenses | 2,500  |
| Net asset value         | 80,000 |

- (b) (i) State the main weaknesses of historical cost accounts in times of inflation.
- (ii) Discuss the main limitations of ratio analysis. **4+6=10**
-