

M.Sc. ACTUARIAL SCIENCE

Term-End Examination

June, 2010

00204

MIA-004 F2F : FINANCE AND FINANCIAL  
REPORTING

Time : 3 hours

Maximum Marks : 100

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- Note :** (i) The question paper is divided into 3 sections.  
(ii) **Section-A** : Multiple choice questions.  
(iii) **Section-B** : Short questions.  
(iv) **Section-C** : Long questions.
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SECTION - A

Attempt *all* the questions : 10x2=20

1. Which of the following is **not** required as part of a listing company's annual reports and accounts ?
- (a) Director's Report
  - (b) Income Statement and Balance sheet
  - (c) Auditor's Report
  - (d) Chairman's Statement

2. Which of the following ratio is considered to assess the likely growth prospects of the company and that the company is a low risk investment ?
- (a) Earning per share
  - (b) Diluted earning per share
  - (c) Price Earning Ratio
  - (d) Dividend Yield
3. Which of the following situation is appropriate to buy a put option ?
- (a) The value of the underlying security to rise
  - (b) A stock market boom
  - (c) The interest rate to fall
  - (d) The value of the underlying security to fall
4. Stocks / Inventories are valued at lower cost or net realisable value/market value. This is the result of which accounting concept :
- (a) Materiality concept
  - (b) Cost concept
  - (c) Prudence concept
  - (d) Realization concept

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5. All the claimants to a firm's income and value who are bound together by a complex web of contracts are called :
- (a) Shareholder
  - (b) Stake holder
  - (c) Bond holder
  - (d) Employees
6. Which of the following doesn't apply to limited companies ?
- (a) Must have a Memorandum of Association
  - (b) Must have an Articles of Association
  - (c) Legal identity is separate from the owners of the company
  - (d) Owners have unlimited liability
7. Depreciation provided by a company will affect :
- (i) Profit and Loss Account
  - (ii) Balance sheet
  - (iii) Market value of assets
- (a) (i) only
  - (b) (i) and (ii) only
  - (c) all of the above
  - (d) none of the above

8. CAPM is only valid within a special set of assumptions, which of the following assumptions is not TRUE for CAPM to hold good :
- (a) Investors are rational
  - (b) Volatility of returns is a good measure of risk
  - (c) Investors can borrow or lend unlimited amounts of a risk free asset at the constant risk free rate
  - (d) The market is inefficient
9. Risk which cannot be eliminated by having a suitably diversified port folio and is a risk of being exposed to the market is known as :
- (a) Credit Risk
  - (b) Systematic Risk
  - (c) Marketable Risk
  - (d) Specific Risk
10. Which of the following is treated as a credit item in the Trial Balance :
- (a) Wages
  - (b) Electricity Charges
  - (c) Bank overdraft
  - (d) Machinery

## SECTION - B

Attempt *any* 8 questions from question 11 to question 20 :  $8 \times 5 = 40$

11. What is the purpose of Balance Sheet ? Explain. 5  
Briefly explain what are the assets, liabilities and capital in Balance sheet ?
12. Define the following :
- (a) Holding and Subsidiary company  $2\frac{1}{2}$
- (b) Minority interest  $2\frac{1}{2}$
13. Explain the concept of agency theory and its impact on the cost of financing of a company. 5
14. Discuss the proposition "ratio analysis can show what's hidden in the financial statements" ? 5
15. What is the meaning of quotation ? List all the methods of obtaining quotation. 5
16. Discuss the relative advantages and disadvantages of using the NPV and IRR approaches for capital project appraisal. 5

17. (a) Outline what is meant by the pay back period ? 2
- (b) Under what circumstances would you consider using the pay back period approach to evaluate a project ? 3
18. (a) Define the beta of an asset. 3
- (b) Explain how beta can be used to determine the appropriate risk discount rate used to appraise a project ? 2
19. Compare and contrast interest rate swaps and currency swaps. 5
20. Describe five factors that influence a company's decision on the level of dividend that might be appropriate. 5

**SECTION - C**

Attempt *any two* questions from question No. 21  
to question No. 24 :

21. The following information has been extracted from  
the book keeping records of XYZ Co. 2x20=40  
Trial Balance as on 31<sup>st</sup> Dec. 2009. 20

	Rs.	Rs.
	000'	000'
Bank	12	
Trade Payable		187
Trade Receivable	245	
Land & Building - Cost	1300	
Land & Building - Depreciation		195
Interest	65	
Loan		450
Plant & Machinery - Cost	800	
Plant & Machinery - Depreciation		140
Retained Earnings as on 31st Dec 2008		215
Raw material Purchased	502	
Advertisement	30	
Directors remuneration	45	
Sales		1175
Share Capital		700
Other reserves		180
Inventories as on 31st Dec 2008	06	
Salaries - factory & staff	112	
Salaries - administration	125	
	3242	3242

Information :

- (a) Depreciation is to be charged on
  - (i) Building – on a straight line basis assuming a residual value of Rs. 1,00,000 on 31<sup>st</sup> Dec 2013. The book value of the building on 31<sup>st</sup> Dec 2008 was Rs. 555,000.
  - (ii) Plant and machinery - 20% reducing balance.
- (b) The directors have proposed to pay a total dividend of Rs. 17,000 for the year, but this has not been approved by shareholders. No dividend was paid in relation to 2008 accounting year. There was no change in the issued share capital during 2009.
- (c) The corporation tax charge has been estimated at Rs. 12,000 for the year. No tax was payable in respect of the 2008 accounting year.
- (d) Inventories as on 31<sup>st</sup> Dec. 2009 were Rs. 8000.
- (e) In the Balance sheet as on 31<sup>st</sup> Dec 2008, trade payable are Rs. 1,31,000, trade receivable were Rs. 1,99,000, cash at Bank was Rs. 6,000 and loans are Rs. 75,000.  
Prepare XYZ's company's income statement for the year ended 31<sup>st</sup> Dec 2009 and its Balance sheet as on that date.  
Prepare XYZ's company's cash flow statement for the year ended 31<sup>st</sup> Dec 2009.



22. (a) Based on the following figures taken from a company's published report and accounts, 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	19000
Current liabilities	17000
Inventories	11000
Inventories last year	12000
Long term debt	9000
Revenue	25000
Cost of sales	7000
Distribution costs	3000
Administrative Expenses	2500
Net asset value	80,000

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

23. You are a director of a large manufacturing company based in London. The company produces electrical goods for the world market and has branches in Europe, Asia and Africa. Its finance figure comprises of both equity (ordinary and preference shares) and debt (debentures and unsecured loans) finance. The company now wants to expand its range of products and needs further funds for investment. As the director of the company you will have to contribute to the discussion of the various financial options to the company.
- (a) One option is rights issue consider the advantage and disadvantage of a rights issue for the company. 6
- (b) The finance Director has suggested the company could issue Eurobonds. Consider its advantages and disadvantages. 6
- (c) What other financial options are available for the company ? 3
- (d) What factors will you consider when making your decision ? 5
24. There is an oil exploration company which will generate cash inflows without any fresh investment as under : 20

Year	Cash in flows (Rs. in Crores)
1	10,000
2	10,000

There is a proposal to invest Rs. 1600 crores which will prepone the cash in flow from second year to first year.

If the cost of capital is 15%, find out NPV of the investment.

Also find out I R R (Internal Rate of Return).

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