INSTITUTE OF ACTUARIES OF INDIA

EXAMINATIONS

November 2025

Subject CB1 – Business Finance

Time allowed: 3 Hours 15 Minutes

Total Marks: 100

Q. 1) Which of the following is not a part of Quick Assets?

a) Disposable Investments
b) Receivables
c) Cash
d) Cash equivalents
e) Prepaid expenses **[2]**

Q. 2) 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
e) All the above **[2]**

Q. 3) Which of the following events would decrease the internal rate of return of a proposed asset purchased?

a) Decrease Tax Credits on the asset
b) Decrease related working capital requirements
c) Shorten the payback period
d) Use written down value method instead of straight line for depreciation
e) All of the above **[2]**

Q. 4) Observing changes in the financial variables across the years is:

a) Vertical analysis
b) Horizontal Analysis
c) Peer-firm Analysis
d) Industry Analysis.
e) Diagonal Analysis. **[2]**

Q. 5) A company has issued the following:

i) Subordinated Loan Stock,

ii) Ordinary Shares

iii) Preference Shares

iv) Floating Shares Debentures

State the order of priority in the event of winding up of the business:

a) i), iv), iii), ii)
b) iv), i), iii), ii)
c) iv), i), ii), iii)
d) i), iv), ii), iii)
e) i), iii), iv), ii) **[2]**

Q. 6) Apple Co's current ratio is 4:1. Which of the following shall normally result in increase of the current ratio?

a) Purchase of Inventory on Account
b) Sale of Inventory on Account
c) Purchase of Machinery for Cash
d) Collection of Accounts Receivables
e) All the above. **[2]**

Q. 7) The cost of Preference Share Capital is not adjusted for taxes because:

a) It is Tax free
b) It is only a charge against profit
c) It is not an appropriation of profits
d) It is not a charge against profits but an appropriation of profits
e) All of the above. **[2]**

Q. 8) The required rate of return that the debt investment must yield to protect shareholder's interest.

a) Cost of Equity
b) Cost of Debt
c) Cost of Retained Earnings
d) Cost of Preference Shares
e) Cost of Borrowings **[2]**

Q. 9) A bill of exchange drawn on June 16 for a period of 30 days and unfortunately July 19 is a public holiday. Then what will be the maturity date of the bill?

a) 19th July
b) 20th July
c) 18th July
d) 17th July
e) 17th June **[2]**

Q. 10) In case of agency problem, the actions of managers are very likely to be directed towards the goal of

a) Profit Maximisation
b) Self-Sufficiency
c) Survival and self-sufficiency
d) Wealth Maximisation
e) All of the above **[2]**

Q. 11)

a) Explain the beta of a stock without formula. (2)

b) How can beta be determined? (3)

c) As an active stock market investor, would you invest in a stock with a beta of 1 or -1? (3)

d) Name a financial instrument that is likely to have a beta of 0. (1)

[9]

Q. 12) Alpha Company is considering following investment projects:

Cashflow (In Rs.)	Initial Outgo	Inflow At the end of Year 1	Inflow At the end of Year 2	Inflow At the end of Year 3
A	-10,000	10,000		
B	-10,000	7,500	7,500	
C	-10,000	2,000	4,000	12,000
D	-10,000	10,000	3,000	3,000

Rank the projects according to each of the following methods:

a) Payback (2)

b) IRR (6)

c) NPV, assuming discount rates of 10 and 30 per cent. (4)

[12]

Q. 13) Describe the constraints the firm would face while planning for its growth and expansion. **[5]**

Q. 14)

a) Define Current Ratio and Quick Ratio using formulas. State the purpose of each ratio. (2)

b) X Ltd. has a current ratio of 3.5: 1 and quick ratio of 2: 1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities. (5)

[7]

Q. 15) Rupani & Bros Manufacturing, a public listed company, needs capital to build a new factory. The Company has decided to issue bonds to finance this expansion. During the Board meeting, CFO Alex said, "we should attach warrants to the bond issue in return for a lower interest rate". What are the key considerations from the CFO's commentary. **[5]**

Q. 16) Discuss the sources from which a large industrial enterprise cab raise capital for financing modernization and expansion and discuss each source features. **[7]**

Q. 17) The principles of providing a fair, balanced, and understandable assessment of company's position and prospects are mandated through corporate governance rules enforced by the country's regulator. Explain how a limited company could create a misleading impression of the company's profitability in the published financial statements. **[6]**

Q. 18) 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.

a) Define Opportunity Cost. (1)

b) Outline the points you would make with an example. (4)

c) Also, can a company use the same opportunity cost for all the projects. (2)

[7]

Q. 19) You are required to prepare Balance sheet and statement of Profit and Loss from the following trail balance of Harish Chemicals Ltd. for the year ended 31st March, 20X1.

Harish Chemicals Ltd.

Trail Balance as at 31st March,20X1

Particulars	**Rs.**	**Particulars**	**Rs.**
Inventory	6,80,000	Equity Shares	
Furniture	2,00,000	Capital (Shares of Rs.10 each)	25,00,000
Discount	40,000	11% Debentures	5,00,000
Loan to directors	80,000	Bank Loans	6,45,000
Advertisement	20,000	Trade Payables	2,81,000
Bad Debts	35,000	Sales	42,68,000
Commission	1,20,000	Rent received	46,000
Materials consumed	23,19,000	Transfer fees	10,000
Plant and Machinery	8,60,000	Profit and Loss Account	1,39,000
Rentals	25,000	Depreciation provision:	
Current Account	45,000	Machinery	1,46,000
Cash	8,000		
Interest on Bank Loans	1,16,000		
Preliminary expenses	10,000		
Fixtures	3,00,000		
Wages	9,00,000		
Consumables	84,000		
Freehold Land	15,46,000		
Tools and Equipment	2,45,000		
Goodwill	2,65,000		
Trade receivables	4,40,000		
Dealer aids	21,000		
Transit Insurance	30,000		
Trade expenses	37,000		
Distribution Freight	54,000		
Debenture interest	55,000		
	85,35,000		85,35,000

Additional Information: Closing Inventory on 31-3-20X1: Rs.8,23,000.

Tax to be considered zero. **[22]**

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