

**PGDM (IBM), 2020-22**  
**Corporate Finance & Insurance Accounting**  
**INS-302**  
**Trimester – III, End-Term Examination: April 2021**

Time allowed: 2 Hrs 30 Min  
Max Marks: 50

Roll No: \_\_\_\_\_

**Instruction:** Students are required to write Roll No on every page of the Answer Sheet. All other instructions on the question paper / notifications should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10  Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			<b>50</b>

**Section-A**

- A1.** You are the Finance Advisor of XYZ Ltd, an India-based insurance broker. XYX Ltd is considering the acquisition of a specialist insurance broker who has an 80% market share in their specialist market. As part of the acquisition process, you undertake an analysis using various financial ratios. You have obtained the specialist insurance broker's report and accounts for the last two complete financial years. You do not have any information on the current year.
- (a) Explain the limitations of relying only relying on financial ratio analysis in the possible acquisition of the specialist insurance broker. (5 Marks)
- (b) Identify, with justification, three additional items of financial information that will be required to enable XYZ Ltd to fully consider the acquisition. (5 Marks) (CILO 1)

**OR**

- A1.** What do you understand by term solvency margin?
- (a) Discuss the relevance that this has with respect to the books of accounts of insurance company. (5 Marks)
- (b) Outline the process involved in arriving at solvent margin of insurance company (Life or non- life) as per IRDA. (5 Marks) (CILO 1)

- A2.** A Company sells an annual policy for Rs 200 on 1 July 2014, another for Rs 100 on 1 Jan 2015 and yet another for Rs 300 on 1 July 2015. In this case the premium written in 2015 are Rs 400. However only half the premium received on 1 July 2015 related to 2015, the other half is still unearned at the end of that year and relates to 2016. Similarly only half the premium received on 1 July 2014 the other half is earned in 2015.
- (a) Find the premium earned in 2015(5 Marks)
- (b) Why premium earned and premium written are not the same(5 Marks) (CILO 2)

**OR**

- A2.** Calculate Claim ratio, expense ratio, commission ratio and combined Ratio. Also suggest the ways of improvement (10 Marks) (CILO 2)

<b>Income Statement 31 December, 20XX</b>	
	<b>£ 000</b>
Income	
Gross Written Premium	2,187
Outward Reinsurance Premium	(475)
Net Written Premium	1,712
Change in the gross provision for unearned premium	(91)
Less change in the provision for unearned premium, reinsurers' share	19
Change in the provision for unearned premium	(72)
Net earned premium	1,640
Net investment return	403
<b>Total Income</b>	<b>2,043</b>
<b>Expenses</b>	
Gross claims incurred	(2,452)
Reinsurers' share	1,110
Claim incurred net of reinsurance	(1,342)
Acquisition costs	(170)
Other operating expenses	(150)
<b>Total expenses</b>	<b>(1,662)</b>
Profit before tax	381
Tax expense	(115)
<b>Profit for the period</b>	<b>266</b>

- A3.** Ruchica's father is the sole proprietor of 'Friends Gifts', a firm engaged in the sale of gift items. In the process of preparing financial statements, the accountant of the firm Mr. Goyal fell ill and had to proceed on leave. Ruchica's father was urgently in need of the statements as these had to be submitted to the bank, in pursuance of a loan of ₹ 5 lakh applied for the expansion of the business of the firm. Ruchica who is studying Accounting in her school, volunteered to complete the work. On scrutinising the accounts, the banker found that the value of building bought a few years back for ₹ 7 lakh has been shown in the books at ₹ 20 lakh, which is its present market value. Similarly, as compared to the last year, the method of valuation of stock was changed, resulting in value of goods to be about 15 per cent higher. Also, the whole amount of ₹ 70,000 spent on purchase of personal computer (expected life 5 years) during the year had been charged to the profits of the current year. The banker did not rely on the financial data provided by Ruchica. Advise Ruchica for the mistakes committed by her in the preparation of financial statements in the context of basic concepts in accounting. (10 Marks) (CILO 3)

**OR**

- A3.** Cookie Creations: An Entrepreneurial Journey CC1 Natalie Koebel spent much of her childhood learning the art of cookie-making from her grandmother. They passed many happy hours mastering every type of cookie imaginable and later creating new recipes that were both healthy and delicious. Now at the start of her second year in college, Natalie is investigating various possibilities for starting her own business as part of the requirements of the entrepreneurship program in which she is enrolled. A long-time friend insists that Natalie has to somehow include cookies in her business plan. After a series of brainstorming sessions, Natalie settles on the idea of operating a cookie-making school. She will start on a part-time basis and offer her services in people's homes. Now that she has started thinking about it, the possibilities seem endless. During the fall, she will concentrate on holiday cookies. She will offer individual lessons and group sessions (which will probably be more entertainment than education for the participants). Natalie also decides to include children in her target market. The first difficult decision is coming up with the perfect name for her business. In the end, she settles on "Cookie Creations" and then moves on to more important issues. Instructions
- Will Natalie need accounting information? If yes, what information will she need and why? How often will she need this information? (4 Marks)
  - Identify specific asset, liability, and owner's equity accounts that Cookie Creations will likely use to record its business transactions. (2 Marks)
  - Should Natalie open a separate bank account for the business? Why or why not? (4 Marks) (CILO 3)

## Compulsory Case Study

### Section-B

Surya Limited wants to replace its old machine with a new automatic machine. Two models A and B are available at the same cost of Rs 7 Lakhs each. Salvage value of the old machines is Rs 1.5 Lakh. The utilities of the existing machine can be used if the company purchases A. Additional cost of utilities to be purchased in that case are R. 1.5 lakh. If the company purchases B then all the existing utilities will have to be replaced with new utilities costing Rs 3 lakhs. The salvage value of the old utilities will be Rs 0.50 lakhs. The earnings after taxation are expected to be:

Year	(Cash in-flows of)		
	A	B	P.V. FACTOR @15%
1	1,70,000	1,70,000	0.870
2	2,00,000	2,00,000	0.756
3	1,80,000	1,90,000	0.658
4	1,00,000	2,00,000	0.572
5	1,50,000	40,000	0.497
Salvage value at the end of Year 5	50,000	60,000	

### CASE-2

- Q1.** Discuss the CAPM model and Cost of equity under this model
- Q2.** Face Value of Equity shares of a company is Rs. 10, while current market price is Rs. 200 per share. Company is going to start a new project, and is planning to finance it partially by new issue and partially by retained earnings. You are required to CALCULATE cost of equity shares as well as cost of retained earnings if issue price will be Rs. 195 per share and flotation cost will be Rs 10 per share. Dividend at the end of first year is expected to be Rs. 20 and growth rate will be 5%.

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