

Time Allowed : 3 Hours

The figures in the margin on the right side indicate full marks.

Answer Question No. 1 which is compulsory carrying 25 marks and any five from the rest.

1. (a) State whether the following statements are True or False: 1x8
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| (i) The <u>book value</u> of an asset is the historical cost less depreciation. | (0) |
| (ii) Valuing a firm using discounted cash flow method is conceptually different from valuing a capital project using present value method. | (0) |
| (iii) It is important to cross-check the financial statement information by studying financial ratio changes during the forecast period. | (0) |
| (iv) The provisions of Accounting standards do not impact mergers of companies. | (0) |
| (v) Divestitures represent the sale of a part of the total undertaking. | (0) |
| (vi) Horizontal mergers are also known as conglomerate mergers. | (0) |
| (vii) Possession of complimentary resources is one of the reasons for Merger negotiations. | (0) |
| (viii) Brands do not influence customers's demand. | (0) |
- (b) Fill in the blanks by using the words given in the brackets: 1x7
- | | |
|---|-----|
| (i) Revaluation of assets is undertaken to attract _____ (creditors/ <u>investors</u>) by indicating to them the _____ value of the assets (current/future). | (0) |
| (ii) The commonly used basis for revaluation of freehold land would be _____ (current replacement cost/present value of future earnings). | (0) |
| (iii) <u>Dividend yield</u> is the dividend per share as a percentage of the _____ (book/market) value of the share. | (0) |
| (iv) Estimated fair value of an asset is based on the _____ (current/discounted/future) operating cash flows. | (0) |
| (v) DCF analysis requires the revenue and expenses of _____ (past/future). | (0) |
| (vi) Current liabilities are payable _____ (within/beyond) a period of one year. | (0) |
| (vii) Key to income-based approach of valuation is _____ (capitalization rate/internal rate of return). | (0) |
- (c) Choose the correct answer from the given alternatives: 2x5
- | | |
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| (1) Trailing P/E is its current market price divided by
(i) Most recent four quarters' EPS
(ii) <u>Current book value</u>
(iii) Last years market price
(iv) Average of last 4 years EPS | (0) |
| (2) AB Ltd. as of November 1, 2008 closed with <u>a share</u> price at Rs. 44.50. In its financial year ended 31 December 2007, AB Ltd. recorded EPS of Re. 0.83 that included an extraordinary loss of Re. 0.11. Trailing EPS for last 4 quarters, without adjusting for non-recurring items, was 20.6, while the EPS after adjusting for these non-recurring items was Rs. 15.6. Which | (0) |

trailing P/E would one use = Rs. 20.6 or Rs. 15.6?

- (3) The quoted price of a corporate bond of face value Rs. 100 is Rs. 90.50. The par value of the holding is Rs. 5000. The price is (0)
- (i) Rs. 905
 - (ii) Rs. 4500
 - (iii) Rs. 4525
 - (iv) Rs. 4750
- (4) "The sale of a security with a commitment by the seller to buy the same security back at a specified price at a designated future date" defines: (0)
- (i) Prepayment risk
 - (ii) A repurchase agreement
 - (iii) An adjustable price issue
 - (iv) A sinking fund provision.
- (5) A wishes to sell his business, Business has been good, revenues are growing each year, he desires to pick a best offer and have patience till he gets price. In this situation he should value on the basis; (0)
- (i) Book value
 - (ii) NPV of future earnings
 - (iii) Auction value
 - (iv) Fair Market value.

2. Write a short note on any three of the following: 3x5

- (a) Categories of Financial assets (0)
- (b) Brand Valuation (0)
- (c) Net Realisable value of Inventories (0)
- (d) Fair Market Value. (0)

3. (a) The preference shares of the XY Co. Ltd. has a face value of Rs. 100 and Rs. 9.50 dividend rate. You require an 11% return on this stock. What is the maximum price you would pay for it? Would you buy it the market price of Rs. 96? 5 (0)

(b) The price of the company's share is Rs. 100 and the value of growth opportunities is Rs. 20. If the company's capitalization rate is 20%, what is the earnings-price ratio? How much is earnings per share? 10 (0)

4. The Balance Sheets of A Ltd. and B Ltd. separately are given to you. B Ltd. is a legal subsidiary of A Ltd. 15 (0)

	A Ltd. (Rs. in millions)	B Ltd. (Rs. in millions)
Plant Equipment, Land	540	250
Available for sale Investments:		
Investments in subsidiaries	200	0
Inventories	200	60
Debtors	100	40
Cash and Cash Equivalents	20	10
	1060	360
8% Debentures	300	100
Sundry Creditors	60	20
Deferred Tax Liability	100	20
Share Capital	100	20
Retained Earnings	500	200

A Ltd. holds 90% of 20 million shares of B. Ltd (face value Rs. 1). A Ltd has 100 million shares. Market price of A Ltd, shares as on December 31, 2007 is Rs. 70 and that of B Ltd. Rs. 18.

It was decided that B Ltd. will acquire A Ltd., by issuing its equity shares. For this purpose the plant equipment of A Ltd. were valued at Rs. 644 million and investments in B Ltd. which are 18 million shares, valued at market price. How many shares of B Ltd. should be issued to acquire A Ltd. without any acquisition of goodwill?

5. ABC Co. Ltd. an engineering company, it considering the purchase of a new machine for its immediate expansion program. There are three possible machines at the same cost, which are suitable for the purpose; the details of these are given with estimated cost and sales values: 15 (0)

ITEMS	Machine A (Rs.)	Machine B (Rs.)	Machine C (Rs.)
Capital cost	3,00,000	3,00,000	3,00,000
Sales (at std, Prices)	5,00,000	4,00,000	4,50,000
Net cost of production:			
Direct material	40,000	50,000	48,000
Direct Labour	50,000	30,000	36,000
Factory Overheads	60,000	50,000	58,000
Administration costs	20,000	10,000	15,000
Selling & District costs	10,000	10,000	10,000

The economic life of machine 1 is 2 years, while it is 3 years for other two machines, after which the scrap value of Rs. 40,000, Rs. 25,000 and Rs. 30,000 respectively. Sales are expected to be at the rates shown for each year during the life time of machines. The cost relates to the annual expenditure resulting from each machine. Average tax rate is 45%. Payables and receivables are settled promptly. Return on capital to be on an uniform basis of 8% p.a. You are required to value the proposals and show which machine would be the most profitable investments on the basis of net cash flows. (State the assumptions, if any, made in arriving at the answer)

6. (a) Explain the cost-based approach of Brand Valuation. 5 (0)

- (b) The following data is given to you regarding a company having a share in branded portion as well as unbranded portion: 10 (0)

Branded revenue	Rs. 500 per unit
Unbranded revenue	Rs. 120 per unit
Branded cost	Rs. 350 per unit
Unbranded cost	Rs. 100 per unit
Research & Development	Rs. 20 lakhs
Branded products	1 lakh units
Unbranded products	40000 units
Tax rate is 39.55%	
Capitalisation factor 18%	

Calculate the brand value.

7. Explain the concept of human resource accounting and outline the basic models for HRA (Human Resource Accounting). 15 (0)

8. (a) Explain what is Tobin's Q. What are the circumstances when it is most useful? 7 (0)

- (b) Explain what is "Calculated Intangible Value (CIV)". What are the limitations of this method. 8 (0)