

“ CRASH COURSE ”

ICAI Hyderabad Chapter

CA. VINOD KUMAR V

Cell No : 97005 19069

CA-FINAL – GROUP - I

PAPER 2 : “ STRATEGIC FINANCIAL MANAGEMENT”

CRASH COURSE - March 7 to 11 2011

NAME :

S.No	CHAPTER NAME
1	“ DIVIDEND DECISIONS ”
2	“ SECURITY ANALYSIS & PORTFOLIO MANAGEMENT ”
3	“ MUTUAL FUNDS”
4	“ CAPITAL BUDGETING ”
5	“ RISK ANALYSIS IN CAPITAL BUDGETING ”
6	“ LEASING DECISIONS ”
7	“ DERIVATIVES ”
8	“ INTERNATIONAL FINANCIAL MANAGEMENT”
9	“ MERGERS, ACQUISITIONS & RESTRUCTURING ”

CHAPTER No. 1 – “ DIVIDEND DECISIONS ”

1. A company earns Rs. 10 lakhs after tax and pays out 60% of its profits as dividends. The number of shares outstanding is 1 Lakh. Its price earning multiple is 6.
The company can invest its retained earnings in projects that give it an IRR of 15%.
 - i. Compute the theoretical market price using Walter's Model ?
 - ii. Is the company's payout practice in sync with maximising the wealth of the shareholders ?
 - iii. If the answer to (ii) above is "NO" what payout would you suggest ?
 - iv. Is the Walter's Model very different from the all or nothing approach ? Explain.

2. Three Companies operating under the same business risk class that calls for a return of 10% to the shareholders earn 15%, 10% and 12% respectively. If their earnings per share in the upcoming year are Rs. 10/- what would be the price of the shares under the following three alternative payout levels:
(i) 30%, (ii) 60%, (iii) 80% ? Using Gordon, round-off the share price to the nearest 0.25.
(iv) What are the inferences that can be drawn from the above exercise ?

3. X Ltd. has 8 lakhs equity shares outstanding at the beginning of the year 2003.
The current market price per share is Rs. 120.
The Board of Directors of the company is contemplating Rs. 6.4 per share as dividend.
The rate of capitalisation, appropriate to the risk-class to which the company belongs, is 9.6%.
 - (i) Based on MM Approach, calculate the market price of the share of the company, when the dividend is -
(a) declared ; and (b) not declared.
 - (ii) How many new shares are to be issued by the company, if the company desires to fund an investment budget of Rs. 3.20 crores by the end of the year assuming net income for the year will be Rs. 1.60 crores.

4. The shares of A and B both sell for Rs. 100 and offer a pretax return of 15%. However, in the case of A, the return is entirely in the form of dividend yield (the company pays a regular dividend of Rs. 15 a share) while in the case of B the return comes entirely as capital gain (the shares appreciate by 15 % a year).
 - i. If the dividends and capital gains are both taxed at 30 % what is the after tax return on A ?
 - ii. What is the after tax return on share B to an investor who sells after holding for two years, if tax rate for capital gains is 30%.
 - iii. In case dividends are taxed at 10% and capital gains are taxed at 15% how would the position change ?

5. The balance sheet of K Ltd shows that its shares have a par value of Rs. 8. The paid up capital is Rs. 20 Lakhs and the retained earnings are Rs. 84 Lakhs. The Current market price is Rs. 60.
What will happen to the Equity account and to the number of shares outstanding and to the Market Price in each of the following situations?
Consider each situation independently and discuss:
 - i. If there is a 1:5 bonus issue
 - ii. If there is a 2:1 stock split
 - iii. If there is a 1:2 reverse split.

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CHAPTER No. 2 – “ PORTFOLIO MANAGEMENT ”

1. The forecast of returns for securities A and B are laid out below :

<u>Security A</u>		<u>Security B</u>	
Probability	Return (%)	Probability	Return (%)
0.05	15	0.05	8
0.20	20	0.25	18
0.50	25	0.40	26
0.20	30	0.25	34
0.05	35	0.05	44

Required :

- i. Expected rate of return of each security.
- ii. Standard deviation for each security.
- iii. Comment with reasons as to which of the two securities has more upside potential and downside risk.
- iv. Independent of the first three elements, assume now that the probability of return for security B will be identical with that of A. Compute.
 - a. Expected return from the portfolio, if it is formed with 70 % investment in A and remainder in B.
 - b. Covariance of AB.
 - c. Correlation coefficient of AB.
- v. Compute the risk in the 70/30 portfolio using three different methods.

2. You have been given the following information, about Pink and Zinc Ltd.

	<u>Pink and Zinc</u>		<u>Market</u>		<u>Return on Govt. Bonds percentage</u>
	<u>Average Share Price</u>	<u>Dividend per Share</u>	<u>Average Index</u>	<u>Dividend Yield Percentage</u>	
2000	242	20	1812	4	6
2001	279	25	1950	5	5
2002	305	30	2258	6	4
2003	322	35	2220	7	5

- (i) Compute the Beta Value of the Company as at the end of 2003.
- (ii) What is your observation ?

3. Average market risk premium reflecting return on stocks representative of an " average " sensitivity to three factors is shown below :

The risk free rate is 6 %,

<u>Factor</u>	<u>Market risk premium</u>
Forex	3.00 %
Interest	(1.00 %)
GNP	4.50 %

<u>Stock</u>	<u>Sensitivity Factor (Beta)</u>		
	<u>Forex</u>	<u>Interest</u>	<u>GNP</u>
ABC	1.50	1.25	3.00
DEF	0.80	(2.00)	1.00
LKJ	0.40	0.50	1.00

- i. Compute the expected return on the above stocks :
- ii. If Lilly had a portfolio of investments with equal values in each of these three stocks, what would be the return on the portfolio ?

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4. AE Ltd. and DE Ltd. are companies in the same risk class, paying taxed at 35 % and registering steady (*no growth*) earnings. An extract of financial statements shows that AE is an all-equity company, while DE is a geared company. Market values are in equilibrium. Assume tax rate is 35 % and debt beta is Zero.

	(Amount / Rs. 000)	
	AE Ltd	DE Ltd
Market Value of Equity	5,900	3,744
Market Value of Debt	--	3,556
Interest on Debt at 7%	--	280
Surplus after tax - PAT	650	468

If Equity Beta value for AE is 1, Comput:

- i. Cost of Equity of DE,
- ii. Market return for AE and
- iii. Beta value for DE.

CHAPTER No. 3 – “ MUTUAL FUNDS ”

1. You are the chief of research in a financial daily. This weekend you propose to evaluate the performance of a mutual fund. The 10-year historical statistics have been furnished ?

Year	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Mutual fund	14	(1)	21	31	11	19	20	12	(10)	12
Benchmark portfolio (BP)	5	21	23	(6)	32	18	5	17	(12)	10

The average rate for government of India bond during this period can be assumed to be 6%. How do you rate the fund based on the Sharpe, Treynor, Jensen, Fanma and Morning Star models.

2. A pension fund starts the year with Rs. 50 million. By mid-year it has appreciated to Rs. 60 million, at which point it pays out pensions of Rs. 20 million. In the second half of the year the fund appreciates by a further 50%.
- i. What is the annual compounded time weighted rate of return ?
 - ii. What is the annual compounded rupee weighted rate of return ?
 - iii.
 - a. Suppose the fund had a mid year cash inflow of Rs. 20 million rather than an outflow. Would this increase or decrease the time-weighted rate of return ?
 - b. Would it increase or decrease the rupee-weighted rate of return ?

CHAPTER No. 4 – “ CAPITAL BUDGETING ”

1. Swastik Ltd. manufacturers of special purpose machine tools, have two divisions that are periodically assisted by visiting teams of consultants. The management is worried about the steady increase of expenses in this regard over the years.

An analysis of last year's expenses reveals :

Consultants remuneration Rs. 2,50,000 ; Travel & Conveyance Rs. 1,50,000 ;
 Accommodation Expenses Rs. 6,00,000 ; Boarding Charges Rs. 2,00,000 ;
 Special Allowances Rs. 50,000.

The management estimates accommodation expenses to increase by Rs. 2,00,000 annually. As part of a cost reduction drive, Swastik Ltd. are proposing to construct a consultancy centre to take care of the accommodation requirements of the consultants. This centre will additionally save the company Rs. 50,000 in boarding charges and Rs. 2,00,000 in the cost of Executive Training Programs hitherto conducted outside the Company's premises every year.

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The following details are available regarding the construction and maintenance of the new centre :

- Land : at cost of Rs. 8,00,000 already owned by the company, will be used.
- Construction cost : Rs. 15,00,000 including special furnishings.
- Cost of annual maintenance : Rs. 1,50,000.
- Construction cost will be written off over 5 years being the useful life.

Assuming that the write off of construction cost as aforesaid will be accepted for tax purposes, that the rate of tax will be 50% and that the desired rate of return is 15%, you are required to analyse the feasibility of the proposal and make recommendation.

2. The following are the sales and cost figures for the three years. The initial investment is Rs. 5 lakhs.

Details	Year 1	Year 2	Year 3
Sales	5	9	15
Costs	3	6	9

Compute NPV under each of the following situations. Each situation is to be considered separately.

- (i) Inflation is zero. The discount rate is 15%.
 - (ii) All cash flows are in money terms. Inflation is 10%. Money discount rate is 15%.
 - (iii) All cash inflows are in money terms. Inflation is 10%. RDR is 8%.
 - (iv) All cash flows are in real terms. Sales inflation is 10%. Real Discount Rate is 6%.
 - (v) All cash inflows are in real terms. Sales inflation is 10%. Cost inflation is 5%. MDR is 15%.
3. Television Ltd. has a proposal for manufacturing car televisions.
- The project would involve cost of plant at Rs.500 lacs, installation costs of Rs.100 lacs and working capital of Rs.125 lacs. The annual capacity of the plant is to manufacture 20,000 sets.
- Price per set is Rs.20,000/- with a variable cost ratio of 65%. Cash-fixed costs in the first year, including promotion expenditure of Rs.120lacs, is Rs. 420 lacs and is thereafter Rs.300 lacs each year.
- Depreciation is at 25% WDV. Working capital requirements is 25% of sales.
- The company expects that the plant's capacity utilization over its estimated useful life of seven years is as under

Year	1	2	3	4	5	6	7
Capacity utilization%	25	40	50	75	100	100	100

Terminal value of the project is 20% at invoice price. If the hurdle rate is 12%, and tax rate is 35% plus 5% surcharge, can the project be accepted?

while evaluating, you have to keep in mind that the company has other sources of income against which the losses if any from this project, can be set off.

Also assume that the terminal value would include release of funds blocked in working capital.

4. Elixir Ltd has just completed over a period of one year, the development of a new product called "The Amritha". It now wishes to decide whether to proceed with the manufacture of the product. The following information is available:
1. The development required three work-years of the time of employees in the research department. These employees earned Rs.4,500 each per annum on average. Various materials and components had to be purchased especially for the development work at cost of Rs.4,270.

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2. The selling price of the product would be set at Rs.90. It is expected that production and sales would be 5,000 units per annum for eight years.
 3. Production of the Isar would require three types of material:

Material A: To be bought specially for the project at a cost of Rs.4 per Kg.

Material B: This is used on most of Elixir's projects. At present there are 3,000 kgs of Material B in stock, which was bought at Rs.2 per Kg. It could be sold as scrap for net proceeds of Rs.1 per kg. The purchase price of Material B is now Rs.2.50 per kg. and is not expected to rise over the period of the project.

Material C: For this item, there is no further use other than the Amritha. There are 5,000 kgs of Material C in stock, which was bought at Rs.5 per kg. It could be sold as scrap for Rs.2 per kg, and its current purchase price is Rs.5.50 per kg, which is not expected to change over the period of the project.

Each unit requires 3 kgs of Material A, 2 kgs of material B and 1 kg of Material C.
 1. Fifteen work-hours would be required for each unit at a wage rate of Rs.2.20 per hour. There is a scarcity of labour with the necessary skills and consequently all employees would have to be transferred from another of Elixir's projects. The company would have to accept a loss of contribution from this project of Rs.1 per hour (measured as sales less all variable costs including labour). However, the labour shortage is expected to last for only one year.
 2. Other variable costs of the project will be Rs.16 per unit.
 3. Inflation now being completely under control, no increase in costs over the life of the project is expected.
 4. Two machines will be needed for the project's two processes. First process, known as Vega, will require a machine purchased specially at a cost of Rs.3,00,000 which would have a residual value of Rs.30,000 at the end of eight years. Process Mega can be carried out on a machine, which is already owned by Elixir Ltd. This machine has a book written-down value of Rs.75,000. If the Amritha is not produced, the machine will be sold for Rs.50,000. At the end of eight years it will be valueless.
 5. Sales may be assumed to take place and production costs to be incurred on the last day of each year. The cost of capital of Elixir Ltd is 7% per annum.
- Establish whether or not it is worthwhile to go ahead with the production of "The Isar" with supporting computations based on the estimates given.

CHAPTER No. 5 – “ RISK ANALYSIS IN CAPITAL BUDGETING ”

1. Canned Foods Ltd. is evaluating a project whose life will not fall below 2 years, involving production and sale of 13,00,000 units of mango-pulp at a rate of Rs. 10/- unit. The following cash flows have been estimated

	Amount Rs. '000s		
	Year 0	Year 1	Year 2
Initial investment	(14,000)		
Variable costs		(4,000)	(4,000)
Cash in flows		13,000	13,000
Net cash flows	(14,000)	9,000	9,000

Their cost of capital is 8%.

- i) Can the project be accepted?
- ii) Measure the sensitivity of the project to changes in variables.

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2. A new product is being introduced by XYZ Ltd. at a cost of Rs. 1,00,000/-. The following cash flows have been projected for the life of the project.

Year 1		Year 2		Year 3	
CFAT (Rs.)	Probability	CFAT (Rs.)	Probability	CFAT (Rs.)	Probability
51,150	0.1	39,325	0.1	35,750	0.1
52,800	0.2	43,450	0.2	14,200	0.2
59,400	0.4	48,400	0.4	15,600	0.4
63,250	0.2	50,600	0.2	16,600	0.2
66,000	0.1	55,000	0.1	18,000	0.1

The company feels that cash flows over time are perfectly correlated. Assume a risk free rate of 8%.

- (i) Compute the expected value and standard deviation of the probability distribution of possible net present values. Assuming a normal distribution, what is the possibility of the project providing a net present value of
 - (ii) Zero or less
 - (iii) of Rs. 12,000 or more.
3. A Company is about to invest in a project with an initial cost of Rs. 80 lakhs. The project cash flow structure is as follows :
- a. CFAT of Rs. 28 lakhs per annum if the projects is successful.
 - b. CFAT of Rs. 10 lakhs per annum if it is not successful.
- Life of the project is six years. The cost of capital is 12%. The probability of success of the project is 0.50.
- Required :
- (i) Evaluate the project for its acceptance.
 - (ii) Independent of "a" above, determine whether the company can go ahead, if (i) the project turns out to be unsuccessful and (ii) the investment is sold for Rs. 50 lakhs at the end of first year.

CHAPTER No. 6 – “ LEASING DECISIONS ”

1. Inventions Ltd. is considering an addition to their gene-testing equipment. Two options, i.e. lease or purchase through bank loan are kept open. based on financial information available for a decision summarised below, recommend an approach.
 1. Asset: Cost Rs.40 lacs; life 5 years; RV Rs 9.50 lacs; WDV depreciation 25%
 2. Earnings: EBDIT for years 1 to 5: Rs.35,30,25,20 and 20 lacs; tax rate 40%; tax benefits available in the accounting period itself
 3. Lease: 5Yrs, rentals Rs.290 per thousand: annually in arrears, initial fee of 3.33%%
 4. Borrowings: Mix of Loans to owned funds 3:1 ; interest on 5-year loan 18%;
 5. Target debt equity ratio 2:1. pre-tax Cost of debt 18% and Cost of Equity is 24%.
- 2.. Bright Stars Ltd., are considering adding two machines, which would significantly improve their production levels. The cost is Rs. 10,00,000, and the life of the assets is four years. expected RV is Rs. 200,000/-. This addition is expected to provide the company with a pre-tax net cash flow of Rs.320,000 annually during the life of the assets. The Chief Finance Manager is considering two alternatives.

First is to make an outright purchase through a bank loan at 10%, with a bullet payment at the end of four years.

The second alternative is taking it on lease. Lease rentals would be Rs.388,000 per annum, payable at the end of year, at which time, the ownership will be transferred for a nominal value.

Assume that depreciation is on WDV basis, corporate tax rate is 40%, Tax shield is available in the same year in which expenses are incurred. The cost of equity is 16% after tax. Decide the method of financing, using APV method.

CHAPTER No. 7 – “ DERIVATIVES ”

1. Consider a 6-month gold futures contract of 100 gm. If the spot price is Rs. 600 per gram and that it costs Rs. 3 per gram for the 6-monthly period to store gold and that the cost is incurred at the end of 2 months. If the risk free rate of interest is 12 % per annum continuously compounded, compute the futures price ? If the futures were available at Rs. 620, what action would follow ? Would the position change if the futures were available at Rs. 660 ?
2. Ram buys 10,000 shares of X Ktd. at Rs. 22 and obtains a complete hedge of shorting 400 Nifties at Rs. 1,100 each. He closes out his position at the closing price of the next day at which point the share of X Ltd. has dropped 2% and the Nifty future has dropped 1.5%. What is the overall profit/loss of this set of transaction?
3. Consider the following data relating to KM stock. KM has a beta of 0.7 with NIFTY. Each Nifty contract is equal to 200units. KM now quotes at Rs. 150 and the Nifty futures is 1400 Index points. You are long on 1200 shares of KM in the spot market.
 - i. How many futures contracts will you have to take ?
 - ii. Suppose the price in the spot market drops by 10 % how are you protected ?
 - iii. Suppose the price in the spot market jumps up by 5 % what happens ?
4. A stock with a current market price of Rs. 50 has the following exercise price and call option premium. Compute intrinsic value and time value.

Exercise Price :	45	48	50	52	55
Premium :	5	6	4	5	7
5. In June 03 a six-month call on I Ltd's. stock with an exercise price of Rs. 25 sold for Rs. 2. The stock price was Rs. 20. The risk free interest rate was 5% per annum. How much would you be willing to pay for a put on I Ltd's stock with the same maturity and exercise price? What happens if the actual price is different from what you are willing to pay ?
6. An investor notices a call option on a stock with an exercise price of Rs. 60 expiring three months hence at Rs. 7 and a put option on the same stock with the same exercise price expiry date at Rs 10. He believes that while prices could move either way, an upward price jump is likely to be more significant.
What strategy is to be adopted-strip or strap ? What is the fall out ? Draw the payoff table and the payoff graph.
7. A stock index is at 5000 points. There is a 50 % probability that it will change either up by 20 points or down by 10 points in each month. Consider a European call option on this index with an exercise price of 5020, which will expire in three months.
 - a. Find the value of the European call ?
 - b. If the actual price of the call were Rs. 12, what strategy would you adopt ?
 - c. the actual price if the call were Rs. 6, will your strategy change ?

CHAPTER No. 8 – " INTERNATIONAL FINANCE "

1. Consider the following INR/SGD direct quote of ICICI Mambai : 26.50 - 75
 - (a) What is the cost of buying Rs. 55,000 ?
 - (b) How much would you receive by selling 92,000 rupees ?
 - (c) What is the cost of buying SGD 7,450 ?
 - (d) What is your receipt if you sell SGD 18,340 ?

2. The spot rate for INR / AUD is 29.36 and the three month forward rate is 29.45.
 Which currency is appreciating and which is depreciating ?
 Which currency is trading at a discount and which at a premium ?
 Which currency is more expensive ?
 Compute the annual percentage premium or discount ?

3. The following information pertains to exchange rates in India.

	<u>Spot-INR</u>	<u>1-Month Swap points</u>
CAD	34.65-80	30 - 20
NZD	29.85-05	10 - 20

Calucalte the cost or value in Rs. to a customer, who wishes to,

 - a. Buy CAD 25,000 spot.
 - b. Sell CAD 75,000 one month forward.
 - c. Sell NZD 20,000 one month forward.

4. Find out the Forward Quotation (FQ) from the following Spot Rate and the Swap Points and indicate the Premium / Discount. Also express / Discount (%).

	<u>Spot</u>	<u>1 m</u>	<u>P/D</u>	<u>3 m</u>	<u>P/D</u>	<u>6 m</u>	<u>P / D</u>
a. FFr / \$	5.2321/40	25/20		40/32		21/20	
b. INR / £	65.2200/35	40/30		50/35		55/42	
c. INR / S \$	23.9000/30	30/25		40/65		45/65	
d. HK \$ / INR	0.1656/70	11/14		14/19		27/20	

5. A glass manufacturer in India is tendering for an order from Kuwait. The tender conditions state that payment will be made in Kuwait Dinars in 18 months from now. The company is required to offer a price in KWD.
 The marginal cost of producing the glass is Rs. 290 per Sq. ft.
 The tender quantity is 2,00,000 sq ft of glass.
 The normal mark up is 25%on marginal cost.
 The Rupee/Dinar spot rate is 159.20 - 30.
 Annual inflation rate in India is 9% and In Knwalt Is 3%.
 Recommend what Kuwaiti Dinar price should be quoted in the tender by the Indian glass manufacturer, for supply of 2,00,000 sq.ft.of glass?

6. Deep Sea Fishing Co Ltd. concluded an export an export order for 10 tonnes of packaged fish to USA on 20th January. The contract provided supply of contracted quantity in ten shipments, commencing from February itself. US importer had agreed on a price of \$ 1825 per tonne. The terms of payment were i) 25% of entire contract value in advance on signing, and ii) balance 75% as and when each shipment takes place.
 Re/\$ rates on the applicable dates during the contract period were as under:

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20th Jan	Feb	March	April	May	June
45.50	45.40	45.30	45.20	45.30	45.20

July	Aug	Sep	Oct	November
45.00	45.50	45.70	45.60	45.40

Required :

- What was the estimated rupee inflow at the time of signing the contract ?
- What is the inflow ultimately registered by the company, on completion of the contract ?
- Is there a difference ?
- Name the risk involved.

7. A group of companies is controlled from the USA. This group has subsidiaries in UK, Euroland and Japan. For convenience, these are referred to as UK, EL and JP. As on 31st March, inter-company indebtedness stood as under :

Debtor	Creditor	Amount (in Million)
UK	EL	EL 240
UK	JP	Y 120,00
JP	EL	EL 120
EL	UK	Sterling 75
EL	JP	Y 120,00

US Headquarters follow the multi-lateral netting policy, and adopts the following exchange rates:

US \$ 1 = 0.90; Sterling 0.70; Y120 .

Compute and show net payments to be made by subsidiaries, after netting off.

8. Exporter is a UK based Company. Invoice amount \$ 3,50,000/-. Credit period three months.

Exchange rates in London		
\$	Spot	1.5865-1.5905
3 months	Forward	1.6100-1.6140

Money market rates		
	Deposit	Loan
\$	7%	9%
Sterling	5%	8%

- Compute and show how a money-market hedge can be put in place.
 - Determine whether forward contract would be advantageous
9. F Ltd. is a medium-sized UK Company with export and import trade with the USA. The following transaction are due within the next six months.

Sale of finished goods, cash receipts due in three months \$ 1,97,000

Purchase of finished goods cash payment due in six months \$ 2,93,000

Exchange Rates (London Market)

Spot	L 1 = \$ 1.7106 - 1.7140
Three months forward	L 1 = \$ 1.7024 - 1.7063
Six months forward	L 1 = \$ 1.6967 - 1.7006

Calculate the net sterling pounds receipts and payments that F Ltd. might expect for both its three and six months transactions if the company hedges foreign exchange risk on :

- Forward foreign exchange market.
- On money market operation basis.

CHAPTER No. 9 – “ MERGERS, ACQUISITIONS & RECONSTRUCTIONS ”

1. Williams Ltd. desire to acquire the shares of A Ltd. whose latest BS is given below.

<u>Liabilities</u>	<u>Amount / Rs.</u>	<u>Assets</u>	<u>Amount / Rs.</u>
6% Pref. Shares (Rs.100)	100,000	Goodwill	40,000
Equity shares (Rs.10)	200,000	Plant and machinery	170,000
General reserve	50,000	Other long term assets	10,000
Current year earnings after equity dividends	120,000	Stock	125,000
Creditors	60,000	Debtors	160,000
Proposed Equity Dividend	60,000	Cash at bank	125,000
Taxation for current year	40,000		
Total	630,000	Total	630,000

Goodwill is worth nothing. Book value of long term assets is 15% less than realisable value; contingent liabilities amounting to Rs.30,000 can crystallize into liabilities. A sundry debtor declared insolvent, owes Rs.10,000. Compute value per share, both on cum-dividend-basis and ex-dividend basis, if

- (i) preference dividend has already been paid out and
- (ii) preference dividend has not been declared and paid.

2. Imperial Ltd. is evaluating the feasibility of acquiring control of Hospital Surgical (Hs), an unlisted, private company :

Turnover	Rs. 2400 lacs
Earnings	Rs. 30 lacs
Number of shares	60,000
Shares held by	Small group of family members
% of Debt in total debt and equity	25 %
Dividend pay out	50 %
Estimated Growth in dividend	5 %

Imperial expect to offer a price which would be at least 15% less than what would the price, if the shares were to be listed. RBI Bond rate is presently ruling at 6% and market return is 14%. XYZ is a company in a risk class comparable to HS.

XYZ has an equity beta of 1.44, with a debt level which is one-eighth of equity level.

What price should Imperial pay for the shares of HS? Assume that there is no taxation.

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Dear Friends,

Last May 2010 attempt, we covered 50 marks of the paper for CA Final SFM and for CS Professional FFTM 120 marks in June 2010.

This time for Nov 2010, SFM - CA Final, We covered 90 Marks fully , where one can aim for Rank,,,,
The details are

- | | | |
|-----|---|--|
| Q1. | a | - Concept Covered Very Easy - Practice problem |
| | b | - Not covered |
| | c | - Concept Covered Very Very Easy – Practice problem |
| | d | - Not covered |
| Q2. | a | - Concept Covered |
| | b | - As it is Revision Problem No. 17 – Mergers & Acquisition |
| Q3. | a | - Concept Covered |
| | b | - Not Covered |
| Q4. | a | - As it is Problem No. 14 – International Finance |
| | b | - As it is Problem No. C 18 – Dividends |
| Q5. | a | - As it is Problem No. 9 – Portfolio Management |
| | b | - Concept Covered NPV (Inflation) – Very easy |
| Q6. | a | - As it is Problem No. 17 – Money Market Hedging |
| | b | - As it is Problem No. 12 – Dividends |
| Q7. | a | - Not Covered |
| | b | - Not Covered |
| | c | - Same question under theory |
| | d | - Same question covered under Mutual Funds Theory |
| | e | - Not Covered |

Total As it is – 56 Marks (80% scoring 45 marks sure)
Covered - 34 Marks (60% scoring 20 marks sure)

Total 90 Marks (Sure 65 Marks)

Regards,
CA. Vinod Kumar V

**“START WALKING
ROAD FORMS BY ITSELF”**

**“START WORKING
RESULT FOLLOWS BY ITSELF”**