

FINAL EXAMINATION

December 2017

P-20(FABV)
Syllabus 2012

Financial Analysis & Business Valuation

Time Allowed: 3 Hours

Full Marks: 100

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

Answer Question No. 1, which is compulsory and carries 20 marks.

Answer any five questions from Q. Nos. 2 to 8, each of which shall carry 16 marks.

1. (a) State whether the following statements are true or false: 1×10=10

- (i) There is an indirect relationship between inputs and outputs in financial model.
- (ii) Analyzing revenue of Banks and Investment companies, assets and liabilities are essential value drivers.
- (iii) The goal of financial analysis is to assess the performance of a firm in the context of its stated goals and strategy.
- (iv) Under-capitalization is indicated by low current ratio.
- (v) Low production capacity utilization is not an indicator of financial distress of a firm.
- (vi) Production of goods without market survey is an internal factor responsible for corporate distress.
- (vii) Issue of equity shares in lieu of some machinery will affect the current ratio.
- (viii) Cash flow statement is based upon accrual basis of accounting.
- (ix) Vertical financial statement analysis is useful to inter-firm comparison.
- (x) The difference between the intrinsic value and the purchase price in the context of mergers and acquisition is known as synergy value.

(b) Selected data from ABC Co.'s balance sheet at the end of the year are as follows:

Investment in XYZ Co., at fair value	₹ 1,50,000
Deferred taxes	₹ 86,000
Equity share capital, ₹ 1 par value	₹ 5,50,000
Preference share capital, ₹ 100 par value	₹ 1,75,00
Retained earnings	₹ 8,93,000
Accumulated other comprehensive income	₹ 46,000

Please Turn Over

The investment in XYZ Co. had an original cost of ₹ 1,20,000. Assuming the investment in XYZ is classified as available-for-sale, ABC's total owner's equity at the year-end is closer to:

- (i) ₹ 16,18,000 (ii) ₹ 16,64,000 (iii) ₹ 17,14,000

Which one among (i), (ii) and (iii) is correct?

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(c) The Operating and Cost data of ABC Ltd., are:

Sales	₹ 20,00,000
Variable Costs	₹ 14,00,000
Fixed Costs (including 15% interest on ₹ 10,00,000)	₹ 4,00,000

You are required to calculate its operating, financial and combined leverage?

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2. (a) M/S Roy Brothers Co., has ₹ 3,00,000 to invest. The following proposals are under consideration. The Cost of Capital for the company is estimated to be 15%.

Project	Initial Outlay (₹)	Annual Cash (₹)	Life of Project (Years)
P	1,50,000	30,000	10
Q	80,000	20,000	8
R	70,000	15,000	20
S	50,000	15,000	10
T	50,000	12,000	20

Rank the above projects on the basis of Profitability Index Method.

Given : Present value of annuity of ₹ 1 received in steady stream discounted @ 15% :

$$8 \text{ years} = 4.487$$

$$10 \text{ years} = 5.019$$

$$20 \text{ years} = 6.259$$

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(b) You are given the following information about Sandeep Ltd.,

- | | |
|--|--------|
| (i) Beta for the year 2016-17 | 1.05 |
| (ii) Risk free rate | 12% |
| (iii) Long range Market Rate (based on Sensex) | 15.14% |

