SUGGESTED ANSWERS TO QUESTIONS

FINAL EXAMINATION

GROUP - IV

(SYLLABUS 2016)

DECEMBER – 2021

Paper - 20 : STRATEGIC PERFORMANCE MANAGEMENT AND BUSINESS VALUATION

Time Allowed : 3 Hours

Full Marks : 100

Section A MCQ

20X1= 20 Marks

Q.1 Which one of the following is not a perspective of Balanced Score Card?

Ans

1. Customer

✔ **2. Management and Employees**

3. Financial

4. Learning and Growth

Q.2 Which one of the following elements/parameters is not prescribed by the NCAERStudy on Corporate Distress Prediction for predicting the stages of corporate sickness?

Ans

✔ **1. Long-Term Debt to Equity Ratio**

2. Net working capital position

3. Net worth position

4. Cash profit position

Q.3 The Current Assets and Current liabilities of RT LTD. are Rs.17000 and 12000 respectively. How much can the Company borrow on a short-term basis withoutreducing the Current Ratio below 1.25?

Ans

1. Rs. 7000

✔ **2. Rs. 8000**

3. Rs. 10000

4. Rs. 7500

Q.4 A firm earns Economic profit when total profit exceeds

Ans

1. Variable Costs

✔ **2. Normal Profit**

3. Explicit Costs

4. Implicit Costs

Q.5 As per Altman's Model (1968) if the value of Z-Score of a firm falls between 1.81 and 2.99 then the firm will be

Ans

1. None of these
2. Non-failed firm
3. Failed firm
4. Mixture of failed and non-failed elements ✔

Q.6 SNT LTD. has announced issue of warrants on 1:1 basis for its equity shareholders.The warrants are convertible at an exercise price of Rs. 18 per share. Warrants aredetachable and trading at Rs.10. What is the minimum price of the warrant if the current price of the stock is Rs. 25?

Ans

1. Rs.15
2. Rs.7 ✔
3. Rs.4
4. Rs.5

Q.7 Which is not a, human capital related intangible asset?

Ans

1. Design Patent ✔
2. Union Contracts
3. Trained workforce
4. Employment Agreements

Q.8 A firm has Rs.200 crores as capital employed and is earning 10% Return on CapitalEmployed. If its weighted average cost of capital is 12%, then its Economic Value Added (EVA) will be:

Ans

1. Rs. 4 Crores
2. (Rs. 3 Crores)
3. (Rs. 4 Crores) ✔
4. Rs. 3 Crores

Q.9 Which of the following is not a technique of Financial Statement Analysis?

Ans

1. Trend analysis
2. Ratio analysis
3. Common-size financial analysis
4. Time series analysis ✔

Q.10 The basic goal of a business firm is to_______.

Ans

1. Maximize Profit ✔
2. Maximize Revenues.
3. Maximize output
4. Maximize welfare of its Employees.

Q.11 Income statement is a summary of a firm's revenue and__over a specifiedperiod.

Ans ✔ 1. expenses

2. net profit

3. current asset

4. fixed assets

Q.12_____________is a statistical measure of fluctuations in a variable arranged in theform of a series and using a base for making comparison.

Ans ✔ 1. index number

2. standard deviation

3. none of these

4. time series

Q.13 In Business Organizations, benchmarking means _____

Ans ✔ 1. The search for industries best practices that lead to superior performance.

2. The analytical tool to identify high-cost activites based on the 'Pareto Analysis'

3. The simulation of cost reduction schemes that help to build commitment andimprovement of actions.

4. The process of marketing and redesigning the way a typical company works.

Q.14__________is the present value of expected future cash flows post merger that willresult from the combined operations and additional benefits expected to accrue.

Ans 1. Purchase Price

2. Value Gap

✔ 3. Synergy Value

4. Discount Cash Flow Value

Q.15 Which one out of the following is not a financial liability as per IND AS and new formatof Balance Sheet?

Ans 1. Loans from banks

✔ 2. Equity Shares

3. Debentures/Bonds Issued

4. Financial Lease

Q.16 Balance sheet items are expressed as a percentage of____assets in commonsize ratio.

Ans 1. nominal

✔ 2. total

3. fixed

4. current

Q.17 Financial Risks in Risk Management practices do not included__.

Ans
1. Inflation Rate Risk
2. Exchange Risk
3. Trade Cycles ✔
4. Interest Rate Risk

Q.18 Financial analysis can be undertaken by ______

Ans
1. None of these
2. management of the firm
3. All of these ✔
4. creditors

Q.19 MRP-II refers to __________

Ans
1. Manufacturing Resources Planning ✔
2. Material Requisition Programme – II
3. Maximum Retail Price
4. Material Requirement Planning

Q.20 A supply chain is made up of a series of processes that involve an input, a _ and an output.

Ans
1. Shipment
2. Supplier
3. Transformation ✔
4. Customer

20X1= 20 Marks

Section: B SAQ

Q.1 **_________is a Comprehensive and integrated approach to addressing CorporateRisk. Fill in the blank by using the appropriate word/s or phrase/s.**

Answer : Enterprise Risk Management (ERM)

Q.2 **__________Price Policy is the system of charging high prices for new products to“Skim the Cream” from the market.**

Answer : Skimming

Q.3 **When a business is able to earn profits at a rate higher than that at which a similarbusiness earns, the former business is said to possess___.**

Answer : Goodwill

Q.4 **If the risk free rate at present in the economy is 7.00%, the risk premium on equity of XYZ Ltd. is 8.025% above the risk free rate and the expected return on the marketportfolio is 14.50%, then the Beta of the company will be____.**
(Write answer upto Two decimal places)

Answer : 1.07

Q.5 **As per Altman (1968), if the Calculated Value of Z-score is greater than__, itis predicted that the firm belongs to non-bankrupt class.**
Fill in the blank by using figure/s or word/s as stated above.

Answer : 2.99

Q.6 **Vertical analysis is useful in comparing the performance of several companies in the ______ group.**

Answer : Same

Q.7 **P Charts measures__________of defective in Statistical Process Control (SPC)Methods.**

Answer : Proportion

Q.8 **Under perfect competition, profit is maximized when two conditions are satisfied:One, MR=MC and second, MC curve cuts MR from_______.**

Answer : Below

Q.9 ________is a tool of Financial Statement Analysis which shows what are thosefinancial parameters which are driving the profitability of a company.

Answer : DuPont Analysis

Q.10 The profit function of ZB & Co. Afirm is given by $P = 320\chi - 2\chi^2$ in terms of output χ, how many outputs should the firm sell to make the maximum profit?

Answer : 80

Q.11 Uncertainty is not a part of project risk. Is this statement true or false

Answer : True

Q.12__________involves splitting up a large company such as a conglomeratecomprising of different divisions, into separate companies.

Answer : Demerger

Q.13 The Z-Score model is a quantitative model developed by____to predictbankruptcy or financial distress of a business.

Answer : Edward Altman

Q.14 A company has an issued and paid up capital of 5,00,000 shares of Rs.10 each. Thecompany declared a dividend of Rs.150 lakh during the last five years and expectsto maintain the same level of dividends in the future. If the average cost of equity for the listed companies in the same line of business is 15% then value per share ofthe company will be Rs. ___

Answer : Rs. 200

Q.15 Performance management creates a direct link between employee performance andorganizational goals. Is this statement true or false?

Answer : True

Q.16 Normal profit is part of implicit cost. Is this statement true or false

Answer : False

Q.17 What will be the Market to Book Value Ratio, if ANZ Ltd. has a P/E ratio of 25 and aReturn on Equity (ROE) of 14% ?

Answer : 3.5 times

Q.18__________is a measure of value which tells whether a company is able togenerate returns that exceed its cost of capital employed.

Answer : Economic Value Added

Q.19 Efficiency consists of two main component_____efficiency and ___ efficiency

Answer : Technical, Allocative

Q.20 Fair Market Value is a premise of valuation. Is this statement true or false?

Answer : True

Section C

(12X4 = 48 Marks)

One LAQ

Q.1 "Commercial banks in India are required to invest in the Government of India bondsa requirement of the Statutory Liquidity Ratio. Do you believe that the Governmentof India bonds do not have any kind of risk for the banking sector in India?" Support your answer with suitable reasoning. (3 Marks)

Answer :

Answer: Commercial Banks are supposed to follow SLR of 17% as fixed by the RBI. Most of the securities for SLR are government securities. GOI securities may not have any default risk but they do carry interest rate risk and hence, we cannot say that they are risk free.

Further fluctuations of interest rates have an impact on the valuation of these bonds/securities. In case of rise in interest rates bond valuation may fall, and again rise closer to maturity. These fluctuations introduce an element of risk and thus pose a risk to the banking sector as well as holders/investors.

Q. 2 The following financial data related to XYZ Limited for FY 2019-20 and FY 2020-21 has been extracted from the Annual Report 2020-21.

3+2+2+2 = 9 Marks

(Rs. in Crores)

Statement of Profit and Loss for the financial year,	2019-20	2020-21
Total Revenue	7,680.80	8,986.55
Profit before Tax	1,706.46	2,296.86
Profit after Tax	1,418.96	1,802.11
Dividend	195.80	195.80
Tax on Dividend	39.75	39.75
Amount transferred to Other Equity	1,183.41	1,566.56

Balance Sheet as on March 31,	2020	2021
ASSETS:		
Non-Current Assets		
Property, Plant and Equipment	3,946.11	4,468.63
Intangible Assets	1,635.15	3,301.82
Other Non-Current Assets	425.18	518.95
	6,006.44	**8,289.40**
Current Assets		
Inventories	1,228.65	1,452.21
Financial Assets excluding Cash and Cash Equivalent	897.78	1,021.53
Cash and Cash Equivalent	136.85	186.35
Other Current Assets	3,638.67	3,971.08
Total Assets	**11,908.39**	**14,920.57**

EQUITY AND LIABILITIES:		
Equity		
Equity Share Capital	760.58	760.58
Other Equity	7,389.70	9,112.26
Net Worth	**8,150.28**	**9,872.84**
Non-Current Liability		
Financial Liabilities	1,256.85	1,379.41
Provisions	189.56	315.25
Other Non-Current Liabilities	268.59	345.69
Total Non-Current Liabilities	**1,715.00**	**2,040.35**
Current Liabilities		
Financial Liabilities	1,545.65	1,678.92
Provisions	300.25	878.50
Other Current Liabilities	197.21	449.96
Total Current Liabilities	**2,043.11**	**3,007.38**
Total Equity and Liabilities	**11,908.39**	**14,920.57**

Using the information and suitable Du-Pont Analysis you are required to answer thefollowing:

(i) **Calculate the return an equity and changes in it over both year.**

(ii) Margin for both years

(iii) Asset utilization for the two years

(iv) Asset leverage for the two years and changes in it

Answer :

(i) **RETURN ON EQUITY** : **2019-20** : **17.410%**
2020-21 : **18.253%**

(ii) Margin/Net Profit Ratio : **2019-20** : **18.47%**
2020-21 : **20.05%**

(iii) Assets Turnover Ratio : **2019-20** : **0.645**
2020-21 : **0.602**

(iv) Assets to Equity Ratio : **2019-20** : **1.461**
2020-21 : **1.511**

Q.1 X Limited wants to takeover Y Limited and their Summarized Balance Sheets are given below: (7 Marks)

(Rs. in crores)	X Limited	Y Limited
Equity and Liabilities:		
Equity Capital - Rs. 10 each	120.00	75.00
Reserves and Surplus	150.00	37.50
Non-Current Liabilities	75.00	45.00
Current Liabilities and Provisions	25.00	30.00
Total	**370.00**	**187.50**
Assets:		
Non-Current Assets - Net Fixed Assets	225.00	135.00
Current Assets	145.00	52.50
Total	**370.00**	**187.50**

Additional Information:

	X Limited	Y Limited
Profit After Tax (PAT)	Rs. 48 crores	Rs. 20 crores
Market Price Per Share	Rs. 25.00	Rs. 32.00

Using the above information, what should be the share exchange ratio to be offeredto the shareholders of Y Limited by X Limited based on:

(i) **Net Worth [3]**
(ii) **Earning Per Share (EPS) [2]**
(iii) **Market Price [2]**

Answer :

(i) Exchange Ratio is 15.00:22.50 or 0.6667:1; that is 5 crores shares (0.6667 x 7.50) of X Limited will be issued to the shareholders of Y Limited.

(ii) Exchange Ratio is 2.67:4.00; or 2.67/4.00 = 0.6667
It means is (0.6667*7.50=5) crores shares of X Limited will be issued to the shareholders of Y Limited

(iii) Exchange Ratio is 32:25; or 25/32 = 1.28.
It means is (1.28*7.50=9.60) crores shares of X Limited will be issued to the shareholders of Y Limited.

Q.2 X Limited wants to takeover Y Limited and their Summarized Balance Sheets aregiven below: (2 Marks)

(Rs. in crores)	X Limited	Y Limited
Equity and Liabilities:		
Equity Capital - Rs. 10 each	120.00	75.00
Reserves and Surplus	150.00	37.50
Non-Current Liabilities	75.00	45.00
Current Liabilities and Provisions	25.00	30.00
Total	**370.00**	**187.50**
Assets:		
Non-Current Assets - Net Fixed Assets	225.00	135.00
Current Assets	145.00	52.50
Total	**370.00**	**187.50**

Additional Information:

	X Limited	Y Limited
Profit After Tax (PAT)	Rs. 48 crores	Rs. 20 crores
Market Price Per Share	Rs. 25.00	Rs. 32.00

Assuming that there are no synergy gains, then determine the EPS after merger ifthe exchange ratio is based on Net Worth.

Answer : EPS after Merger : Rs. 4.00

Q.3 If a company has a P/E Ratio of 12 and a ROE of 17.5%, then you are required todetermine its Market to Book Value ratio. (3 Marks)

Answer : Market to Book Value Ratio = P/E Ratio x ROE = 12 x 17.5% = 2.10

Three LAQ

Q.1 PR Ltd. implemented a quality improvement programme and had the followingresults: (2 Marks)
(All Rs. In 000's)

Particulars	2019	2020
Sales	3000	3000
Scrap	300	150
Rework	250	200
Production inspection	100	120
Production warranty	150	75
Quality training	37.50	75
Material inspection	40	30

Determine the cost of prevention and its percentage to sales

Answer :

Classification of quality costs (Rs.'000)

	Particulars	2019	% of Sales	2020	% of sales
	Sales	3000		3000	
(i)	Prevention Costs Quality training	37.50	1.25	75	2.5

Q.2 PR Ltd. implemented a quality improvement programme and had the followingresults: (2 Marks)
(All Rs. In 000's)

Particulars	2019	2020
Sales	3000	3000
Scrap	300	150
Rework	250	200
Production inspection	100	120
Production warranty	150	75
Quality training	37.50	75
Material inspection	40	30

Determine the cost of appraisal of quality and its percentage to sales

Answer :

Particulars	2019	% of Sales	2020	% of sales
Sales	3000		3000	
Appraisal costs (product & material Inspections)	140	4.67	150	5.00

Q.3 **PR Ltd. implemented a quality improvement programme and had the following results:** (2 Marks)
(All Rs. In 000's)

Particulars	2019	2020
Sales	3000	3000
Scrap	300	150
Rework	250	200
Production inspection	100	120
Production warranty	150	75
Quality training	37.50	75
Material inspection	40	30

Determine the cost of internal failure and its percentage to sales

Answer :

Particulars	2019	% of Sales	2020	% of sales
Sales	3000		3000	
Internal failure costs (Scrap and rework)	550	18.33	350	11.67

Q.4 **PR Ltd. implemented a quality improvement programme and had the following results:** (2 Marks)
(All Rs. In 000's)

Particulars	2019	2020
Sales	3000	3000
Scrap	300	150
Rework	250	200
Production inspection	100	120
Production warranty	150	75
Quality training	37.50	75
Material inspection	40	30

Determine the cost of external failure and its percentage to sales and the total quality costs

Answer :

Particulars	2019	% of Sales	2020	% of sales
Sales	3000		3000	
External failure costs (Product warranty)	150	5	75	2.5

Q.5 PR Ltd. implemented a quality improvement programme and had the followingresults: (2 Marks)
(All Rs. In 000's)

Particulars	2019	2020
Sales	3000	3000
Scrap	300	150
Rework	250	200
Production inspection	100	120
Production warranty	150	75
Quality training	37.50	75
Material inspection	40	30

Compute the amount of increase in profit, if any, due to quality improvement.

Answer :

Cost reduction was effected by 7.58 % (29.25-21.67) of sales which is an increase in profit by Rs. 227.50 (877.50-650)

Q.6 What are the exceptions of Law of Demand? (2 Marks)

Answer :

The exceptions of Law of demand—

i. Giffen Paradox

ii. Prestigious goods

iii. Speculative business

iv. Trade cycles

v. Ignorance of the consumers

Q.1 **M/s ABC, an Acquiring Company is considering the acquisition of Target Companyin a stock-for-stock transaction in which target Company would receive Rs.90 for each share of its common stock.** (3 Marks)

M/s ABC, the Acquiring company does not expect any change in its price/earningsratio multiple after the merger and chooses to value the target company conservatively by assuming no earnings growth due to synergy.

Particulars	Acquiring	Target
Earnings	Rs.2,50,000	Rs.72,500
Number of shares	1,10,000	20,000
Market Price per Share	Rs.50	Rs.60

Calculate the following:

(i) **The purchase price premium [1]**

(ii) **The exchange ratio [2]**

Answer :

(i) Purchase price premium = Offer price for Target company stock / Target company Market price per share = 90 / 60 = 1.5

(ii) Exchange ratio = Price per share offered for Target Company / Market Price per share for the acquiring company = 90 / 50 = 1.8

Acquiring company issues 1.8 shares of stock for each of Target Company's stock.

Q.2 **M/s ABC, an Acquiring Company is considering the acquisition of Target Companyin a stock-for-stock transaction in which target Company would receive Rs.90 for each share of its common stock.** (3 Marks)

M/s ABC, the Acquiring company does not expect any change in its price/earningsratio multiple after the merger and chooses to value the target company conservatively by assuming no earnings growth due to synergy.

Particulars	Acquiring	Target
Earnings	Rs.2,50,000	Rs.72,500
Number of shares	1,10,000	20,000
Market Price per Share	Rs.50	Rs.60

Calculate the following:

(i) **The number of new shares issued by the acquiring company [1]**

(ii) **Post-merger EPS of the combined firms. [2]**

Answer :

(i) New shares issued by acquiring company = shares of Target Company x Exchange ratio = 20,000 × 1.8 = 36,000.

(ii) Post-merger EPS of the combined companies = Combined earning / total number of shares.

Combined earnings = (2,50,000 + 72,500) =`. 3,22,500

Total shares outstanding of the new entity

= 1,10,000 + 36,000 = 1,46,000

= Rs.3,22,500 ÷ 1,46,000 = Rs.2.209

Q.3 **M/s ABC, an Acquiring Company is considering the acquisition of Target Companyin a stock-for-stock transaction in which target Company would receive Rs.90 for each share of its common stock.** (2 Marks)

M/s ABC, the Acquiring company does not expect any change in its price/earningsratio multiple after the merger and chooses to value the target company conservatively by assuming no earnings growth due to synergy.

Particulars	Acquiring	Target
Earnings	Rs.2,50,000	Rs.72,500
Number of shares	1,10,000	20,000
Market Price per Share	Rs.50	Rs.60

Calculate the following:

(i) **Pre-merger EPS of the Acquiring company [1]**

(ii) **Pre-merger P/E ratio [1]**

Answer :

(i) Pre-merger EPS of the acquiring company

= Earnings / Number of shares

= 2,50,000 / 1,10,000 = Rs.2.273

(ii) Pre-merger P/E = Pre-merger market price per share / Pre-merger earnings per share

= 50/2.273 = 22.00

Q.4 **M/s ABC, an Acquiring Company is considering the acquisition of Target Companyin a stock-for-stock transaction in which target Company would receive Rs.90 for each share of its common stock.** (4 Marks)

M/s ABC, the Acquiring company does not expect any change in its price/earningsratio multiple after the merger and chooses to value the target company conservatively by assuming no earnings growth due to synergy.

Particulars	Acquiring	Target
Earnings	Rs.2,50,000	Rs.72,500
Number of shares	1,10,000	20,000
Market Price per Share	Rs.50	Rs.60

Calculate the following and Comment on the results:

(i) **Post-merger share price. [2]**

(ii) **Post-merger equity ownership distribution.[2]**

Answer :

(i) Post-merger share price = Post-merger EPS x Pre-merger P/E = 2.209 × 22.00 = Rs.48.60 (as compared to Rs.50 Pre-merger)

(ii)Post-merger Equity Ownership Distribution Target Company = Number of new shares / Total number of shares

= 36,000/ 1,46,000 = 0.2466 or 24.66%

Acquiring company = 100 – 24.66 = 75.34%

Comments: The acquisition results in a Rs.1.40 reduction in the market price of the acquiring company due to a 0.064 (2.273-2.209) decline in the EPS of the combined companies.

Whether the acquisition is a poor decision depends upon what would happen to the earnings in the absence of the acquisition, as the acquisition may infactcontribute to the market value of the acquiring company, but the fall may be due to other factors.

Five LAQ

Q.1 State the Significance of Financial Performance Analysis. (4 Marks)

Answer :

Significance of financial performance analysis

Interest of various related groups is affected by the financial performance of a firm. Therefore, these groups analyse the financial performance of the firm. The type of analysis varies according to the specific interest of the party involved.

Trade creditors: Interested in the liquidity of the firm (appraisal of firm's liquidity)

Bond holders: Interested in the cash-flow ability of the firm (appraisal of firm's capital structure, the major sources and uses of funds, profitability over time, and projection of future profitability).

Investors: Interested in present and expected future earnings as well as stability of these earnings (appraisal of firm's profitability and financial condition).

Management: Interested in internal control, better financial condition and better performance (appraisal of firm's present financial condition, evaluation of opportunities in relation to this current, return on investment provided by various assets of the company, etc.).

Q.2 **The following financial data related to the Balance Sheet of ADANI LTD.for FY 2020 – 21 has been extracted from the Annual Report 2020 – 21.** 6+2 = 8 Marks

(All Rs. In lakh)

ASSETS	2020-21
NON-CURRENT ASSETS	
a) Property, Plant and equipment	28376.80
b) Capital work-in-progress	2256.40
c) Intangible assets	314.40
d) Other assets	856.00
Total non-current assets	**31803.60**
CURRENT ASSETS	
a) Inventories	4409.20
b) Financial assets	
(i) Investments	5856.00
(ii) Trade receivable	750.00
(iii) Cash and cash equivalents	1835.20
(iv) Other financial assets	192.00
c) Other assets	728.80
Total current assets	**13771.20**
TOTAL ASSETS	**45574.80**
EQUITY AND LIABILITIES	
Equity	
a) Equity Share Capital (Rs 10 each)	458.40
b) Other equity	24390.40
Total Equity	**24848.80**
NON-CURRENT LIABILITIES	
a) Financial liabilities	
(i) Borrowings	9827.20
(ii) Other financial liabilities	7.60
b) Provisions	784.00
c) Other liabilities	89.60
Total non-current liabilities	**10708.40**
CURRENT LIABILITIES	
a) Financial liabilities	
(i) Borrowings	267.60
(ii) Trade payables	4496.80
(iii) Other financial liabilities	2616.40
b) Provisions	294.00
c) Other liabilities	2342.80
Total current liabilities	**10017.60**
TOTAL EQUITY AND LIABILITIES	**45574.80**

Additional Information:

- **Market Price of ADANI LTD. share having a face value of Rs 10 as on the BalanceSheet date was Rs 870.**
- **Operating Profit of the Company for the year was Rs 8656 lakh.**
- **Operating Profit Margin of the Company is 16.25%.**

(i) **Using the above information and Altman's Multiple Discriminate Function, you arerequired to calculate Z-score of ADANI LTD. as per the Z-Score Model of Altman (1968).**

(ii) Comment on the financial position of ADANI LTD.

Answer :

(i) **Z = 3.7985**

(ii) ***Comments*****: Using the Revised Z-Score Model (as given above), we get the value of Z 3.7985. Since Z is more than 2.99, the firm is non-failed or non distressed firm.**

Six LAQ

(4X3 =12 Marks)

Q.1 Write Short Notes on Risk Mapping (3 Marks)

Answer :

Risk Mapping:

Risk mapping is the process of identifying, quantifying and prioritizing the risks that may interfere with theachievement of your organizational objectives.

Its aim is to arrive at a clear set of action plans that improve risk management controls, in areas where these arenecessary and help the management of the organization's direct resources.

Risk mapping should start from processmapping and from identifying critical risks in each process phase, linked either to key people, to systems, tointerdependencieswith external players, or to any other resource involved in the process. Subsequently, potentialeffects of errors, failures or improper behavior should be analyzed. This may also lead to identifying priorities interms of control actions.

Q.2 Write Short Notes on OLAP Server (3 Marks)

Answer :

OLAP (Online Analytical Processing) Server:

OLAP Server is a high capacity, multi-user data manipulation engine specifically designed to support and operate on multi-dimensional data structures. The design of the server and the structure of the data are optimized for rapid adhoc information retrieval in any orientation, as well as for fast, flexible calculation and transformation of raw data based on formulaic relationships. The OLAP Server may either physically stage the processed multi-dimensional information to deliver consistent and rapid response times to end users or it may populate its data structures in real time from relational or other databases, or offer a choice of both

Q.3 Write Short Notes on Difference between fair value and market value (3 Marks)

Answer :

Difference between fair value and fair market value (FMV):

There is no authoritative clarification either under US-GAAP or IFRS about the difference between fair value and FMV except that these terms are consistent in accounting. This seems to be the reality. However, a few differences may be traced out as stated below:

- **Fair value has a hierarchy of inputs for valuation but FMV does not have it.**
- **Fair value considers highest and best use of an asset from the perspective of market participants. This may result in maximising the value as against consensus value under FMV.**
- **DOLM adjustments may require in certain cases under fair value but adjustment for DOLC is doubtful.**
- **Fair value disregard blockage discount (a decline in the value resulting from the size of position).**

Q.4 Write Short Notes on Market value added (MVA) (3 Marks)

Answer :

Market Value Added (MVA):

Market Value Added (MVA) is the value added to the business by management since the business was established, over and above the money invested by the owners. Thus, MVA = Market capitalization – investedequity capital. According to another version, MVA is the difference between a company's market value,(debt plus equity) at any point of time minus the total capital invested in the company, since inception. Forall practical purposes, MVA may be considered as the accumulated EVA As generated by the business over time. If a company goes on by creating EVA year after year, then these will add up to give a high MVA.

Q.5 Write Short Notes on Customer Relationship Management (3 Marks)

Answer :

Customer Relationship Management:

Customer Relationship Management (CRM) is a business strategy comprised to process, organizational and technical change whereby a Company seeks to better manage its enterprise around its customer behaviour. It entails acquiring and deploying knowledge about customers and using this information across the various customers touch points to increase revenue and achieve cost reduction through operational efficiencies.

The adoption of CRM is being fuelled by recognition that long-term relationships with customers are one of the most important assets of an organization. CRM entails all aspects of interaction that a company has with its customer, whether it is sales or service related.

Section : D - Case Study Question

Q. 1 **M/s Shah Ltd had earned a PAT of Rs.48 Lakhs for the year just ended. It wants youto ascertain the value of its business, based on the following information.** (5 Marks)

(i) Tax Rate for the year just ended was 36%. Future Tax rate is estimated at 34%

(ii) The Company's Equity Shares are quoted at Rs.120 at the Balance Sheet date.The Company had an Equity Capital of Rs.100 Lakhs, divided, into Shares of Rs.50each.

(iii) Profits for the year have been calculated after considering the following in the P& L Account:

- **Subsidy Rs.2 Lakhs received from Government towards fulfillment of certainsocial obligations.**
- **The Government has withdrawn this subsidy and hence, this amount will not bereceived in future.**
- **Interest Rs.8 Lakhs on Term Loan. The final installment of this Term Loan was fullysettled in the last year.**
- **Managerial Remuneration Rs.15 Lakhs. The Shareholders have approved an increase of Rs.6 Lakhs in the overall Managerial Remuneration, from the next yearonwards.**
- **Loss on sale of Fixed Assets and Investments amounting to Rs.8 Lakhs.**

Compute the 'Future Maintainable Profits' of M/s Shah Limited.

Answer :

Future Maintainable Profits Rs. 54,78,000 Lakhs.

Q. 2 **M/s Shah Ltd had earned a PAT of Rs.48 Lakhs for the year just ended. It wants youto ascertain the value of its business, based on the following information.** (5 Marks)

(i) Tax Rate for the year just ended was 36%. Future Tax rate is estimated at 34%

(ii) The Company's Equity Shares are quoted at Rs.120 at the Balance Sheet date.The Company had an Equity Capital of Rs.100 Lakhs, divided, into Shares of Rs.50each.

(iii) Profits for the year have been calculated after considering the following in the P& L Account:

- **Subsidy Rs.2 Lakhs received from Government towards fulfillment of certainsocial obligations.**
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- **Managerial Remuneration Rs.15 Lakhs. The Shareholders have approved an increase of Rs.6 Lakhs in the overall Managerial Remuneration, from the next yearonwards.**
- **Loss on sale of Fixed Assets and Investments amounting to Rs.8 Lakhs.**

Compute the 'Capitalization rate' of Shah Limited.

Answer :

Capitalization Rate 20%

Q. 3 **M/s Shah Ltd had earned a PAT of Rs.48 Lakhs for the year just ended. It wants youto ascertain the value of its business, based on the following information.** (2 Marks)

(i) **Tax Rate for the year just ended was 36%. Future Tax rate is estimated at 34%**
(ii) **The Company's Equity Shares are quoted at Rs.120 at the Balance Sheet date.The Company had an Equity Capital of Rs.100 Lakhs, divided, into Shares of Rs.50each.**
(iii) **Profits for the year have been calculated after considering the following in the P& L Account:**

- **Subsidy Rs.2 Lakhs received from Government towards fulfillment of certainsocial obligations.**
- **The Government has withdrawn this subsidy and hence, this amount will not bereceived in future.**
- **Interest Rs.8 Lakhs on Term Loan. The final installment of this Term Loan was fullysettled in the last year.**
- **Managerial Remuneration Rs.15 Lakhs. The Shareholders have approved an increase of Rs.6 Lakhs in the overall Managerial Remuneration, from the next yearonwards.**
- **Loss on sale of Fixed Assets and Investments amounting to Rs.8 Lakhs.**

Compute 'Value of Business' of Shah Limited.

Answer :

Value of Business = Future Maintainable Profits ÷ Capitalization Rate = Rs. 54.78 Lakhs ÷ 20%	**Rs. 273.90 Lakhs**