# Paper / Subject Code: 44808 / Financial Analysis and Business Valuation TUBAF/SEMV/29.11.18 

N.B : Figures to the right indicate full marks All Questions are compulsory Use of only simple calculator is allowed.
Q. 1 A) State whether the following statements are True or False. (Any 8)

1. Financial modelling is useful for decision making.
2. Annual Report of a Company a source of factual information.
3. Income Statement of an organisation shows profits earned during the year.
4. The profits that a business will earn in long run is called sustainable earnings.
5. Historical cost model is applied for home-grown assets.
6. Goodwill is a tangible asset which has a realizable value.
7. Current ratio and acid test ratio are the same
8. Contingent Liabilities form part of current liabilities.
9. Depreciation is a source of cash outflow.
10. Stock Turnover Ratio indicates the speed of collection of debt.

Q. 1 B) Select the most appropriate alternative for the following. (Any 7)
11. Financial Model specifies relationship between
a) input and output
b) analysis and interpretation
c) mathematics and finance
d) none of the above
12. Net Profit Before Tax is Rs. $6,00,000$, interest is Rs. 1,20,000, Interest Coverage Ratio will be $\qquad$ _.
a) 6 times
b) 5 times
c) 4 times
d) 7.5 times
13. Shareholder's Equity does not include $\qquad$ $-$
a) Equity Capital
b) General Reserve
c) Debentures
d) Preliminary Expenses
14. Buyback of equity shares creates cash flow from $\qquad$ .
a) Financing activities
b) Investing activities
c) Operating activities
d) None of the above
15. Forward P/E Ratio uses the earnings of $\qquad$ periods.
a) future
b) previous
c) current
d) none of the above
16. the objective of any business is to create growth for its $\qquad$ .
a) employees
b) shareholders
c) creditors
d) lenders
17. $\qquad$ is the total worth of a company's physical assets, if it were to shut down.
a) Book Value
b) Replacement Cost
c) Liquidation Value
d) Discounted cash flow
18. Super Profit may be defined as $\qquad$ .
a) Excess of average profits over normal profits
b) Average profit earned by similar companies
c) Extra profit earned compared to last year
d) none of the above.
19. Analysis of investment must be based on $\qquad$ .
a) bias and uncertainty
b) subjectivity and objectivity
c) profitability and sustainability
d) psychology and emotions
20. Investment in property generates income for the owner in the form of $\qquad$ .
a) dividend
b) interest
c) rent
d) salaries

Q 2. A) $\mathrm{M} / \mathrm{s}$ Murdock is considering an investment proposal worth Rs. 40 Lakh. The expected interest rate is $10 \%$. The following information has been provided to you:

| Year | Cash Flow <br> (Rs.) | Discounting <br> Factor <br> $@ 10 \%$ |
| :---: | :---: | :---: |
| 1 | $8,00,000$ | 0.909 |
| 2 | $10,00,000$ | 0.826 |
| 3 | $11,00,000$ | 0.751 |
| 4 | $15,00,000$ | 0.683 |
| 5 | $13,00,000$ | 0.621 |
| 6 | $10,00,000$ | 0.564 |

You are required to evaluate the project using:
a) NPV
b) Profitability Index
c) Payback Period

OR
Q 2. B)
Following are the Balance Sheets of Viera Industries Ltd. as at $31^{\text {st }}$ March 2017 and 2018.
[15]

| Liabilities | $\begin{aligned} & 2017 \\ & \text { Rs. } \end{aligned}$ | $\begin{gathered} 2018 \\ \text { Rs. } \end{gathered}$ | Assets | $\begin{gathered} 2017 \\ \text { Rs. } \end{gathered}$ | $\begin{gathered} 2018 \\ \text { Rs. } \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Equity Share Capital | 2,00,000 | 3,20,000 | Machinery | 5,92,000 | 6,52,000 |
| General Reserve | 1,80,000 | 1,90,000 | Investments | 2,24,000 | 1,70,000 |
| Profit \& Loss A/c | - | 1,02,000 | Stock | 2,02,000 | 1,32,000 |
| 10\% Pref. Share Capital | 3,60,000 | 2,40,000 | Bills Receivable | 40,000 | 90,000 |
| 15\% Debentures | 2,40,000 | 3,00,000 | Sundry Debtors | 98,000 | 2,78,000 |
| Sundry Creditors | 2,04,000 | 2,32,000 | Cash and Bank | 76,000 | 98,000 |
| Bank Overdraft | 40,000 | 48,000 | Adv. Income Tax | 40,000 | 40,000 |
| Provision for Tax | 36,000 | 28,000 | Profit \& Loss A/c | 28,000 | - |
| Proposed Dividend | 40,000 | - |  |  |  |
|  | 13,00,000 | 14,60,000 |  | 13,00,000 | 14,60,000 |

## Additional Information:

1. 10\% Preference Shares were converted into Equity Shares on 31.03.2018
2. Additional $15 \%$ Debentures were issued on 01.04.2017
3. Preference Dividend and Debenture Interest are paid on 31.03.2018
4. Last year's Equity Dividend is paid on 1.03.2018
5. Machinery of which written down value was Rs. $1,60,000$ was sold at Rs. 1,90,000.
6. Depreciation on Machinery provided during the year was Rs. 1,50,000
7. Investments of Rs. $1,00,000$ were sold for Rs. 50,000
8. Last year's Income Tax was settled at Rs. 44,000

Prepare Cash Flow Statement by Indirect Method as per AS-3.

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Q 3. A) Following is the Trading and Profit \& Loss Account for the year ended $31^{\text {st }}$ March, 2018 and Balance Sheet as at that date of $\mathrm{M} / \mathrm{s}$ Arsene \& Co.

Profit and Loss Account for the year ended 31 ${ }^{\text {st }}$ March, 2018

| Particulars | Rs. | Particulars | Rs. |
| :--- | :---: | :--- | :---: |
| To Cost of Goods Sold | $56,00,000$ | By Cash Sales | $25,00,000$ |
| To Gross Profit | $24,00,000$ | By Credit Sales | $55,00,000$ |
|  | $80,00,000$ |  | $80,00,000$ |
| To Administrative Expenses | $7,60,000$ | By Gross Profit | $24,00,000$ |
| To Selling and Distribution <br> Expenses | $4,40,000$ |  |  |
| To Interest | $1,80,000$ |  |  |
| To Provision For Tax | $4,00,000$ |  |  |
| To Net Profit c/d | $6,20,000$ |  | $\mathbf{2 4 , 0 0 , 0 0 0}$ |
|  | $\mathbf{2 4 , 0 0 , 0 0 0}$ |  | $6,20,000$ |
| To Transfer to Reserves | $1,00,000$ | By Net Profit B/d |  |
| To Provision for Dividend | $2,00,000$ |  | $\mathbf{6 , 2 0 , 0 0 0}$ |
| To Balance c/d | $3,20,000$ |  |  |
|  | $\mathbf{6 , 2 0 , 0 0 0}$ |  |  |

Balance Sheet as at 31 ${ }^{\text {st }}$ March, 2018

| Equity \& Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| Equity Share Capital (Rs. 10 each) | $18,00,000$ | Fixed Assets | $46,00,000$ |
| $8 \%$ Preference Share Capital | $9,00,000$ | Less: Provision for Depreciation | $(5,00,000)$ |
| Reserve \& Surplus | $1,50,000$ | Net Block | $41,00,000$ |
| Profit \& Loss A/c | $3,20,000$ | Long Term Investments | $5,00,000$ |
| $10 \%$ Secured Loan | $10,00,000$ | Accounts Receivable (P.Y. Rs. | $7,00,000$ |
|  |  | $6,00,000$ ) |  |
| $12 \%$ Public Deposits | $5,00,000$ | Inventories (P.Y. Rs. 9,00,000) | $10,00,000$ |
| Accounts Payable (P.Y. Rs. | $7,00,000$ | Cash and Bank Balance | $1,50,000$ |
| $6,00,000$ ) |  |  |  |
| Outstanding Expenses | 80,000 | Prepaid Expenses | 20,000 |
| Bank Overdraft | $5,50,000$ | Advance Income Tax | 60,000 |
| Provision for Tax | $4,00,000$ | Preliminary Expenses | 70,000 |
| Provision for Dividend | $2,00,000$ |  |  |
|  | $66,00,000$ |  | $66,00,000$ |

From the above information you are required to calculate and critically evaluate the following ratios.
a) Current Ratio
b) Net Profit Ratio
c) Return on Capital Employed
d) Debt Service Ratio
e) Stock Turnover Ratio
f) Creditors Turnover Ratio
g) Debtors Turnover Ratio

Note: Conversion to Vertical Statement is not expected.
Q. 3 B) Following are the Income Statements of Freddie Ltd. for the year ended $31^{\text {st }}$ March, 2017 \& 2018.

| Particulars | $\mathbf{2 0 1 7}$ <br> Rs. | $\mathbf{2 0 1 8}$ <br> Rs. |
| :--- | :---: | :---: |
| Sales | $5,00,000$ | $6,00,000$ |
| Cost of Goods Sold | $3,00,000$ | $3,60,000$ |
| Gross Profit | $2,00,000$ | $2,40,000$ |
| Operating Expenses | $1,20,000$ | $1,60,000$ |
| Operating Profit | 80,000 | 80,000 |
| Non-operating Income | 20,000 | 40,000 |
| Non-Operating Expenses | Nil | 10,000 |
| Net Profit Before Tax | $1,00,000$ | $1,20,000$ |
| Provision for Tax | $30 \%$ | $30 \%$ |

Prepare a Comparative Income Statement of Freddie Ltd. in vertical form and analyse the changes in Sales, Gross Profit and Net Profit.
Q. 3 C) From the following information of Lauren Ltd, prepare Common Size Balance Sheet in Vertical Form as on $31^{\text {st }}$ March, 2018

| Particulars | [7] |
| :--- | :---: |
| Fixed Assets | Rs. |
| Current Assets | $5,00,000$ |
| Investments | $3,00,000$ |
| Share Capital | $1,00,000$ |
| Reserves \& Surplus | $4,00,000$ |
| Loan Funds | $1,00,000$ |
| Current Liabilities | $2,00,000$ |

Q. 4 A) The following is the Balance Sheet of Dennis Ltd. as on 31.12.2017.

| Liabilities | Rs. | Assets | Rs. |
| :--- | ---: | :--- | ---: |
| Share Capital: |  | Land \& Building | 84,000 |
| 15,000 Shares of Rs. 10 each | $\mathbf{1 , 5 0 , 0 0 0}$ | Machinery (At W.D.V.) | 96,000 |
| General Reserve | 30,000 | Patents | 15,000 |
| Reserve for Taxation | 45,000 | Inventory | 36,000 |
| Workmen's Savings Account | 22,500 | Trade Receivables | 66,000 |
| Profit \& Loss Account | 24,000 | Cash at Bank | 39,000 |
| Sundry Creditors | 73,500 | Preliminary Expenses | 9,000 |
|  | $\mathbf{3 , 4 5 , 0 0 0}$ |  | $\mathbf{3 , 4 5 , 0 0 0}$ |

Additional Information:

1. The value of Machinery is at Rs. 90,000
2. Land \& Building have been valued at Rs. $1,80,000$
3. Out of Trade Receivables, Rs. 6,000 was considered as bad.
4. The profits of the company have been as follows:

| Year | Rs. |
| :---: | ---: |
| 2015 | 60,000 |
| 2016 | 67,500 |
| 2017 | 79,500 |

5. The company transfers $25 \%$ of its profits to reserves, ignoring taxation.
6. Goodwill of the company is estimated at Rs. $1,20,000$.

Find out the value of the shares on the yield basis and also on the net assets basis. Similar, companies offer a return of $10 \%$ on the market value of their shares.

OR
Q. 4 B) Explain the essential characteristics of Investments.
(08)
Q. 4 C) Explain the models for Real Estate Assets Valuation.
Q. 5 A) Explain the importance of Financial Statements to various stakeholders.
B) Explain the concept of Growth Analysis.
Q. 5 Write Short notes on (Any Three):

1. Advantages of investing in real estate.
2. The need for valuation
3. Valuation Bias
4. Cash Flow from Investing Activities
5. Analysis of Profitability
