Paper / Subject Code: 44808 / Financial Analysis and Business Valuation

 TMBAF/S CMV/29.11.18

 [2½ HOURS]
 [Total Marks : 75]

 N.B : Figures to the right indicate full marks
 All Questions are compulsory

 Use of only simple calculator is allowed.
 [08]

 9.1 A) State whether the following statements are True or False. (Any 8)
 [08]

 1. Financial modelling is useful for decision making.
 [08]

 2. Annual Report of a Company a source of factual information.
 [OULEGE OF AR.]

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[07]

- 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)

1. Financial Model specifies relationship between\_

a) input and output b) analysis and interpretation c) mathematics and finance d) none of the above

2. Net Profit Before Tax is Rs. 6,00,000, interest is Rs. 1,20,000, Interest Coverage Ratio will

be		1.S.S
a) 6 times	b) 5 times	\$ C
c) 4 times	d) 7.5 times	
3. Shareholder's Equity does n	ot include	
a) Equity Capital	b) General Reserve	a.
c) Debentures	d) Preliminary Expenses	
4. Buyback of equity shares cr	eates cash flow from	
a) Financing activities	b) Investing activities	
c) Operating activities	d) None of the above	
5. Forward P/E Ratio uses the e	earnings of periods.	
a) future	b) previous	
c) current	d) none of the above	
cjulient		
6. the objective of any busines	s is to create growth for its	
a) employees	b) shareholders	
c) creditors	d) lenders	
7	is the total worth of a company's physical ass	sets, if it were to shut
down.		
a) Book Value	b) Replacement Cost	
c) Liquidation Value	d) Discounted cash flow	
8. Super Profit may be defined	as	
a) Excess of average profits over		
b) Average profit earned by sin	nilar companies	
c) Extra profit earned compare		
d) none of the above.		

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- 9. Analysis of investment must be based on \_
- a) bias and uncertaintyb) subjectivity and objectivityc) profitability and sustainabilityd) psychology and emotions

10. Investment in property generates income for the owner in the form of

a) dividend b) interest

c) rent

d) salaries

**Q 2. A)** M/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	Discounting
	(Rs.)	Factor
	3.8	@ 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

[15]

You are required to evaluate the project using:

- a) NPV
- b) Profitability Index
- c) Payback Period

#### OR

Q	2.	B)
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Following are the Balance Sheets of Viera Industries Ltd. as at 31<sup>st</sup> March 2017 and 2018. [15]

Liabilities	2017	2018	Assets	2017	2018
Liabilities	Rs.	Rs.	ASSetS	Rs.	Rs.
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	08223	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<sup>st</sup> March, 2018 and Balance Sheet as at that date of M/s Arsene & Co. [15]

Profit and Loss Account for the year ended 31<sup>st</sup> March, 2018

Particulars	Rs.	Particulars	<b></b>
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	380,50,86	80,00,000
To Administrative Expenses	7,60,000	By Gross Profit	24,00,000
To Selling and Distribution	4,40,000	S. S. S. S. S. S. S.	80 A Q A Q A.
Expenses			선소, 마케이어, 안사
To Interest	1,80,000		1000000000
To Provision For Tax	4,00,000		STA C. C. S. S. A
To Net Profit c/d	6,20,000	\$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$ \$	1200200
	24,00,000		24,00,000
To Transfer to Reserves	1,00,000	By Net Profit B/d	6,20,000
To Provision for Dividend	2,00,000	100 x 200 x 30 x 30 x	5500000
To Balance c/d	3,20,000		22222
	6,20,000		6,20,000

Balance Sheet as at 31<sup>st</sup> 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. 6,00,000)	7,00,000
12% Public Deposits	5,00,000	Inventories ( P.Y. Rs. 9,00,000)	10,00,000
Accounts Payable (P.Y. Rs. 6,00,000)	7,00,000	Cash and Bank Balance	1,50,000
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 Ratiod) Debt Service Ratio

c) Return on Capital Employed e) Stock Turnover Ratio

f) Creditors Turnover Ratio

g) Debtors Turnover Ratio

Note: Conversion to Vertical Statement is not expected.

OR

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Q.3 B) Following are the Income Statements of Freddie Ltd. for the year ended 31<sup>st</sup> March, 2017 & 2018.
 [8]

Particulars	2017	2018
	Rs.	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	Nile (*)	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<sup>st</sup> March, 2018 [7]

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Particulars		Rs.
Fixed Assets		5,00,000
Current Assets		3,00,000
Investments		1,00,000
Share Capital		4,00,000
Reserves & Surplus	ちちちちちちちちちちちちちちちちちちち	1,00,000
Loan Funds		2,00,000
Current Liabilities		2,00,000

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

[15]

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land & Building	84,000
15,000 Shares of Rs. 10 each	1,50,000	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
	3,45,000		3,45,000

## 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
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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.

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<ul><li>Q. 4 B) Explain the essential characteristics of Investments.</li><li>Q. 4 C) Explain the models for Real Estate Assets Valuation.</li></ul>	(08) (07)
Q. 5 A) Explain the importance of Financial Statements to various stakeholders.	(08)
B) Explain the concept of Growth Analysis. OR	(07)
Q. 5 Write Short notes on (Any Three):	(15)
1. Advantages of investing in real estate.	
2. The need for valuation	888332888
3. Valuation Bias	
4. Cash Flow from Investing Activities	
5. Analysis of Profitability	200 <b>000000</b> 0000000000000000000000000000
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