NEW SYLLABUS

447

Roll No. ....

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 6

NOTE : 1. *Answer* ***ALL*** *Questions.*

2. *Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.*

3. *Working notes should form part of the answer.*

PART–A

1. (*a*) The following is the extract from the Balance Sheets of Popular Ltd. : ₹/lakh

EQUITY AND LIABILITIES	As at 31st March, 2017	As at 31st March, 2018	ASSETS	As at 31st March, 2017	As at 31st March, 2018
(1)Shareholder's funds:			(1)Non current assets		
(a)Share capital			(a)Fixed assets	550	650
Equity share capital of 500 of ₹ 10 each	500	500	(b)Non current Investments		
(b)Reserves and surplus			10% Investments	250	250
(i)General Reserve	400	425	(2) Current Assets		
Profit and loss account	50	80	(a)Inventories	260	300
(2)Non-Current Liabilities			(b)Trade receivables		
Long term borrowings			Sundry Debtors	170	110
(i)18%Debentures	180	165	(c)Cash and Cash Equivalents	46	43
(3) Current Liabilities					
(a)Trade payables-Sundry Creditors	35	45			
(b)Short term provisions					
Provision for taxation	11	13			
Proposed dividend	100	125			
TOTAL	1276	1353	TOTAL	1276	1353

The following additional information is also provided :

(*i*) Replacement values of Fixed assets were ₹ 1,100 lakhs on 31st March, 2017 and ₹ 1,250 lakhs on 31st March, 2018 respectively.

(*ii*) Rate of depreciation adopted on Fixed Assets was 5% p.a.

(*iii*) 50% of the stock is to be valued at 120% of its book value.

(*iv*) 50% of investments were trade investments.

(*v*) Debtors on 31st March, 2018 included foreign debtors of $ 35,000 recorded in the books at ₹ 35 per U.S. Dollar. The closing exchange rate was $1 = ₹ 39.

(*vi*) Creditors on 31st March, 2018 included foreign creditors of $ 60,000 recorded in the books at $1 = ₹ 33. The closing exchange rate was $1 = ₹ 39.

(*vii*) Profits for the year 2017-18 included ₹ 60 lakhs of government subsidy which was not likely to recur.

(*viii*) ₹ 125 lakhs of Research and Development expenditure was written off to the Profit and Loss Account in the current year. This expenditure was not likely to recur.

(*ix*) Future maintainable profits (pre-tax) are likely to be higher by 10%.

(*x*) Tax rate during 2017-18 was 50%, effective future tax rate will be 40%.

(*xi*) Normal rate of return expected is 15%.

A Director of the company has expressed his fears that the company does not enjoy a goodwill in the prevalent market circumstances. In this context :

(*i*) Critically examine this and establish whether Popular Ltd. has or does not have any goodwill.

(*ii*) If your answers were positive on the existence of goodwill, show the leverage effect it has on the company's result.

Industry average return was 12% on the long-term funds and 15% on equity funds.

(*20 marks*)

(*b*) Calculate Economic Value Addition (EVA) :

Equity Share Capital	₹ 5,00,000
13% Preference Share Capital	₹ 2,00,000
Reserves and Surplus	₹ 6,00,000
Non trade investments (Face value 1,00,000) Rate of Interest	10%
20% Debentures	₹ 3,00,000
Profits before tax	₹ 2,00,000
Tax Rate	40%
WACC	13%

(*5 marks*)

(*c*) The following data relating to a project are provided by the Management of G Ltd. :

Annual saving	₹ 4,20,000
Useful life	4 years
Profitability Index	1.04291
Internal Rate of Return	14%
Salvage Value	Nil

Assume that the only outflow is at the beginning of year 1.

Find (*i*) Net Present Value (to the nearest rupee) and (*ii*) Cost of Capital (as a % up to one decimal point)

Table Showing Present Value of ₹ 1 at different discount rates : (You are required to use PV factors only up to three decimals as shown below)

End of Year\Rate	**14%**	**13%**	**12%**	**11%**
1	0.877	0.885	0.893	0.901
2	0.769	0.783	0.797	0.812
3	0.675	0.693	0.712	0.731
4	0.592	0.613	0.636	0.659
Total	2.913	2.974	3.038	3.103

(*7 marks*)

(*d*) ABC Ltd. wants to raise ₹ 5,00,000 as additional capital. It has two mutually exclusive alternative financial plans. The current EBIT is ₹ 17,00,000 which is likely to remain unchanged. The relevant Information is :

Present Capital Structure : 3,00,000 Equity shares of ₹ 10 each and 10% Bonds of ₹ 20,00,000.

Tax Rate :	50%
Current EBIT :	₹ 17,00,000
Current EPS :	₹ 2.50
Current Market Price :	₹ 25 per share
Financial Plan I :	20,000 Equity Shares at ₹ 25 per share
Financial Plan II :	12% Debentures of ₹ 5,00,000.

What is the indifference level of EBIT ? Identify the financial break-even level.

(*8 marks*)

2. (*a*) Mention the contents of valuation report as required under Companies (Registered Valuers and Valuation) Rules, 2017.

(*b*) Explain the methods of Valuation of Intangible Assets under Income Approach.

(*5 marks each*)

3. (*a*) A Ltd. wants to acquire T Ltd. and has offered a swap ratio of 1 : 2. Following information is provided :

	A Ltd.	**T Ltd.**
Profit after Tax	₹ 18,00,000	₹ 3,60,000
Equity Shares Outstanding	6,00,000	1,80,000
EPS	₹ 3	₹ 2
PE Ratio	10 Times	7 Times
MPS	₹ 30	₹ 14

Calculate :

(*i*) Number of Equity shares to be issued by A Ltd. for acquisition of T Ltd.

(*ii*) EPS of A Ltd. after acquisition

(*iii*) Equivalent earnings per share of T Ltd.

(*iv*) Expected Market price of A Ltd. after acquisition, assuming its PE Multiple remains unchanged.

(*v*) Market Value of the merged firm.

(*5 marks*)

(*b*) What is a hostile takeover/merger ? What are the different types of defence strategies followed.

(*5 marks*)

4. (*a*) As a Professional Valuer, what would be your basis of valuation when a concern is 'not a going concern' ?

(*b*) Explain the concept of 'departure' under International Valuation Standards.

(*5 marks each*)

PART–B

5. (*a*) In a dynamic business environment, structuring a successful business model would depend on many factors. Elucidate with various scenarios and environment.

(*5 marks*)

(*b*) Discuss suitable business models for the following start-up business :

(*i*) Ride sharing taxis

(*ii*) Fashions and Fashion Jewellery.

(*4 marks*)

(*c*) Discuss the significance and shortcomings of the following in relation to FMCG business :

(*i*) Debt Ratio

(*ii*) Efficiency Ratio

(*iii*) Business worth.

(*6 marks*)

6. (*a*) Discuss What-if analysis.

(*b*) What are the benefits & uses of Sensitivity Analysis ?

(*c*) Write a note on revenue forecasting with reference to any industry which you like the most.

(*5 marks each*)

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