Sanjay Ghodawat University, Kolhapur 2018-19

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SY MBA **School of Commerce and Management** **Department:- Management**

Course Code : MMC FM 612 **Course Title:- Business Analysis & Valuation.** **Semester – Even**

Day and Date :- Tuesday 28/05/2019 **End Semester Examination** **Time: 3 hrs, Max Marks: 100** 2:30 to 5:30 pm.

Instructions: 1) All Questions are compulsory.
2)Simple calculator is allowed..

		Marks	COs	Bloom's Level
Q.1	Answer /Solve the following.			
a)	Discuss the role of capital budgeting techniques in analysis and valuation of a business?	10	CO1	L2
b)	On April 1, 2013 Uday started a store for selling high-quality stationary. His accountant has prepared the statement of cash flow for the first year as shown in the following table;	10	CO2	L4

Reliance Stationery Company
Statement of Cash Flows
For the year ended November 30, 2013

Cash Receipts	Rs.
Sale of inventories	28,960
Sale of investments	6,400
Sale of Share Capital	35,200
Depreciation	5,600
Long term credit for purchase of van	2,400
Interest on investment	640
Total Receipts	**79,200**
Cash Payments	Rs.
Purchase of fixtures	27,200
Purchase of Inventories	20,240
Operating expenses	12,800
Purchase of investment	6,800
Purchase of long term credit	2,400
Repayment of loans	800
Interest on bills payable	240
Total payment	**79,200**
Net increase in cash	**8720**

Uday thinks that he has had a successful year with cash increasing by Rs, 8,720. You notice that the statement of cash flows is incorrectly prepared

1. You are required to prepare a proper statement of cash flows using the direct method.
2. Prepare and evaluation of the Reliance stationery Company's first year of working. Do you agree with Uday's assessment about the company?

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OR

b) How operating, investing and financing activities are interlinked with each other in a cash flow statement? Illustrate with example — 10 CO2 L3

Q.2 Answer/Solve the following

a) How to build a Du-Pont analysis model to analyze the performance of company? Exhibit with a suitable example. — 10 C03 L3

b) Are the price and value are same? Discuss the purpose of valuation in business. — 10 CO4 L2

OR

b) Analyse the role of discounted cash flow technique as a technique of business valuation — 10 CO4 L2

Q.3 Answer/Solve the following

a) Discuss the amalgamation in nature of purchase — 10 CO5 L3

OR

a) How to select an appropriate cost for valuation of merger? — 10 CO5 L3

Q.4 Answer/Solve the following

a) ABC Ltd. had started negotiation with a supplier to purchase heavy machinery costing Rs.20 crores on 1st January 2013. The machinery was delivered at buyer's cost at the factory of ABC Ltd. on 1st May 2013. ABC Ltd. Secured term loan from a commercial bank to finance 75% of the cost of the asset at an interest of 16% p.a. the loan was disbursed on delivery of the machinery at buyer's factory. — 10 CO6 L4

ABC Ltd. Incurred the following expenses with respect to the machinery:

Transportation charge 2, 50,000

Handling and installation charges 1,65,000

Trial and expenses 80,000

The machinery was certified as ready for commercial use on 1st August, 2013.

But on 1st August, 2013 the machinery was not used for commercial production due to decision of the top management to cut down production temporarily. The machinery was actually put to use only from 1st January, 2014. During the period (Aug-Dec, 2013) ABC Ltd. incurred additional trial run expenses of Rs. 1, 40,000.

1. Compute the cost of heavy machinery for ABC Ltd.
2. Will you include expenditure incurred during the period of asset ready to use up to the actual use in the value of machinery? Why/Why not?

b) From the following Balance Sheet and other necessary information of P Ltd. For the year ended 31.12.2011. Compute the value of goodwill by the application of capitalization method. — 10 CO6 L4

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Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital;		Goodwill	40,000
20,000 equity share of Rs. 100 each fully paid	2,00,000	Land & Building	1,00,000
Bank overdraft	40,000	Plant & Machinery at cost less depreciation	1,00,000
Sundry Creditors	80,000	Stock in trade	80,000
Provision for taxation	50,000	Book Debts less provision for bad debts	1,20,000
Profit & Loss Appropriation A/C	70,000		
Total Rs.	4,40,000	Total Rs.	4,40,000

The Company commenced operations in 1997 with a paid up Capital of Rs. 2, 00,000. Profits earned before providing taxation have been: 2007 – Rs, 90,000, 2008-Rs.95,000, 2009 – Rs. 1,05,000, 2010 – Rs.80,000, 2011- Rs. 1,10,000.

Assume that income tax 50% has been payable on these profits. Dividend have been distributed from the profits of the first three years @ 10% and for those of the next two years @15% on the paid up capital.

c) From the following Balance sheet of Sweetex Ltd. You are asked to ascertain the value of each equity share of the company 10 CO6 L5

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs 10 each fully paid	2,00,000	Goodwill	30,000
1,000 6% preference shares of Rs.100 each fully paid	1,00,000	Land & Building	1,00,000
Reserves	60,000	Plant & Machinery	1,20,000
Sundry Creditors	40,000	Investment(at cost)	60,000
Provision for Taxation	20,000	Stock	50,000
Other liabilities	10,000	Debtors	40,000
		Cash at bank	24,000
		Preliminary expenses	6,000
Total Rs.	4,30,000	Total Rs.	4,30,000

For the purpose of valuing the shares of the company, the assets were revalued as under;

Goodwill Rs. 50,000, Land & Building at cost plus 50%. Plant and machinery Rs. 1,00,000; Investment at book values; Stock Rs.80,000 and Debtors at book value less 10%

1. Which valuation method you will apply? Why?
2. Ascertain the value of each share

OR

c) On March 31, 2018 the balance sheet of Manali Ltd. Disclosed the 10 CO6 L5 following position;

Liabilities	Rs.	Assets	Rs.
Issued capital in Rs.10 shares	4,00,000	Fixed Assets	5,00,000
Reserves	90,000	Current Assets	2,00,000
Profit & Loss Account	20,000	Goodwill	40,000
5% Debentures	1,00,000		
Current Liabilities	1,30,000		
	7,40,000		**7,40,000**

The net profit for 3 years were;
2016- Rs.51,600, 2017-Rs.52,000, 2018-51,650
On which 20% was placed to Reserve, this proportion being considered reasonable in the industry in which the company is engaged and where the fair investment return may be taken at 10%.

Compute the value of the company's share under yield basis method and profit basis method. Why yield method is appropriate here for the evaluation purpose.?

Q.5 Answer the following (Any 2)

a) Q Ltd. wants to acquire R Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of R Ltd.). Following information is provided: 10 CO5 L5

	Q Ltd.	R Ltd.
Profit after tax	18,00,000	3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS	3	2
PE Ratio	10 times	7 times
Market price per share	Rs.30	Rs. 14

Assemble the information given and answer the following;

(i) The number of equity shares to be issued by Q Ltd. for acquisition of R Ltd.

(ii) What is the EPS of Q Ltd. after the acquisition?

(iii) Determine the equivalent earnings per share of R Ltd.

(iv) What is the expected market price per share of Q Ltd. after the acquisition, assuming its PE multiple remains unchanged?

(v) Determine the market value of the merged firm.

b) Reliable Industries Ltd. (RIL) is considering a takeover of Sunflower Industries Ltd. (SIL). The particulars of 2 companies are given below: 10 CO5 L6

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	RIL	SIL
Earnings After Tax (`)	20,00,000	10,00,000
Equity shares (No.)	10,00,000	10,00,000
EPS	2	1
P/E ratio (times)	10	5

Assemble the information given and answer the following

(i) What is the market value of each company before merger?

(ii) Assuming that the management of RIL estimates that the shareholders of SIL will accept an offer of one share of RIL for four shares of SIL. If there are no synergic effects, what is the market value of the post-merger RIL? What is the new price for share? Are the shareholders of RIL better or worse off than they were before the merger?

(iii) Due to synergic effects, the management of RIL estimates that the earnings will increase by 20%. What is the new post-merger EPS and price per share? Will the shareholders be better off or worse off than before the merger?

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