



BRAINWARE UNIVERSITY
Term End Examination 2020 - 21
Programme – Master of Business Administration
Course Name – Valuation (Securities and Firms)
Course Code - FM303

Semester / Year - Semester III

Time allotted : 75 Minutes

Full Marks : 60

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group-A

(Multiple Choice Type Question)

1 x 60=60

1. *(Answer any Sixty)*

(i) A machine is used to produce goods of Rs.100,000. Here value of the asset is-

- | | |
|-------------------|----------------------|
| a) Value in use | b) value in exchange |
| c) value in store | d) situational value |

(ii) If the coupon rate is constant, the value of bond when close to maturity will be

- | | |
|---------------------|-----------------|
| a) Issued value | b) Par value |
| c) Redemption value | d) All of these |

(iii) A bond is said to be issued at premium when

- | | |
|-----------------------------------|-----------------------------------|
| a) Coupon rate > Required returns | b) Coupon rate = Required returns |
| c) Coupon rate < Required returns | d) None of these |

(iv) Shares and bonds are float in

- | | |
|------------------|--------------------|
| a) Money Market | b) Capital Market |
| c) Equity Market | d) Commercial Bank |

(v) Stock that have priority of claim on assets

- | | |
|-----------------|--------------------|
| a) Equity stock | b) Preferred Stock |
|-----------------|--------------------|

c) Common stock

d) DDM

(vi) The dividend growth rate is referred to as the

a) Dividend yield

b) Discount rate

c) Market rate

d) Capital gains yield

(vii) A preferred stock will pay a dividend of Rs. 3.00 in the upcoming year, and every year thereafter, for three year. You require a return of 9% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock?

a) Rs.33.33

b) Rs.10.27

c) Rs.31.82

d) Rs. 7.59

(viii) The _____ is defined as the present value of all cash proceeds to the investor in the stock?

a) Intrinsic value

b) Dividend payout ratio

c) Market capitalization rate

d) Plough back ratio

(ix) Goodwill is paid for obtaining _____

a) future benefit

b) present benefit

c) past benefit

d) none of these

(x) Super profit is _____.

a) excess of average profit over normal profit

b) extra profit earned

c) average profit earned by similar companies

d) none of these

(xi) Normal profit is _____

a) average profit earned

b) profit earned by similar companies in the same industry

c) average profit earned and profit earned

d) none of these

by similar companies in the same industry

(xii) Goodwill as per purchase or super profit method is equal to ____

- a) Super Profit
- b) $\text{Super Profit} \times \text{Amount of purchase}$
- c) $\text{Super Profit} \times \text{Number of year's purchases}$
- d) None of these

(xiii) While calculating capital employed, ____

- a) Tangible trading assets should be considered
- b) Intangible assets should be considered
- c) Fictitious assets should be considered
- d) None of these

(xiv) Any non-trading income included in the profit should be _____

- a) Eliminated
- b) added
- c) ignored
- d) none of these

(xv) Capital employed at the end of the year is RS.420,000. Profit earned Rs.40,000. Average capital employed is

- a) Rs.4,20,000
- b) Rs.4,00,000
- c) Rs.4,40,000
- d) Rs.4,60,000

(xvi) Average profit is RS.19,167 and normal profit is Rs.10,000. The Super Profit is

- a) Rs.9,167
- b) Rs.29,167
- c) Rs.19,167
- d) Rs.10,000

(xvii) Super Profit is Rs.9,167 and the Normal Rate of Return is 10%. Goodwill as per capitalization of Super Profit method is equal to

- a) Rs. 91,670
- b) Rs.90,600
- c) Rs.67,910
- d) Rs.95,000

(xviii) Shares are to be valued on _____.

- a) Mergers
- b) Sale of shares
- c) Gift tax
- d) All of these

(xix) Quoted shares are those shares which are _____.

- a) listed on the stock exchange
- b) quoted daily
- c) quoted by the seller
- d) quoted by the buyer

(xx) Under net asset method, value of a share depends on _____.

- a) net assets available to equity shareholders
- b) net assets available to debentures holders
- c) net assets available to preference shareholders
- d) none of these

(xxi) Net asset value is also called as _____.

- a) asset backing value
- b) intrinsic value
- c) liquidation value
- d) asset backing value, intrinsic value and liquidation value

(xxii) While deciding net asset value, fictitious assets _____

- a) should be considered
- b) should not be considered
- c) added to total assets
- d) none of these

(xxiii) F.M.P. for yield valuation is _____.

- a) future profit
- b) profit that would be available to equity shareholders
- c) past profit
- d) none of these

(xxiv) Average capital employed ` 14,00,000. Net profit 2011 2,50,000 2012 1,00,000 (loss) 2013 4,50,000 NRR 10% Goodwill at 3 years' purchase of super profit will be

- a) 1,80,000
- b) 1,50,000

c) 1,20,000

d) 90000

(xxv) Market interest rate and price of bonds in the secondary market

- a) Generally move in opposite direction b) Generally move in the same direction
c) Sometimes move in the same direction, d) Have no relationship with each other
sometimes in opposite direction

(xxvi) In the formula $K = (D_1 / P_0) + g$ what does (D_1 / P_0) represent?

- a) The expected capital gains yield from a common stock b) The expected dividend yield from a common stock
c) The dividend yield from a preferred stock d) Interest payment from a bond

(xxvii) What is the intrinsic value of a Rs.1000 face value, zero coupon bond that matures in 20 years if an investor's required rate of return for the bond is 8%.

- a) 1373.87 b) 705.46
c) 376.89 d) 214.55

(xxviii) What is the intrinsic value of a Rs.1000 face value, 8% coupon paying perpetual bond if an investor's required rate of return is 6%.

- a) 1333.33 b) 1000
c) 750 d) Cannot be valued

(xxix) A share is expected to maintain its current earning level indefinitely (earning is Rs.4 per share). Investors expect to earn 10% on this investment. The firm is expected to retain only 10% of its earnings. What is the intrinsic value of a share?

- a) Rs.4 b) Rs.36
c) Rs.40 d) Not possible to calculate

(xxx) What is the earning multiplier for a firm that is expected to grow annually

15%, retain 20% , and require a 20% rate of return for investors

- a) 16
- b) 4
- c) 5.33
- d) 1.33

(xxxix) As per IBC (amendment) Ordinance 2018, voting threshold limit for approval of resolution plan/CIRP etc. , by the committee of creditors shall be-

- a) 0.75
- b) 0.66
- c) 0.5
- d) 0.9

(xxxix) The threshold limit for committee of creditors to continue the corporate as a going concern during CIRP is-

- a) 0.75
- b) 0.66
- c) 0.51
- d) 0.26

(xxxix) A person not given a flat by a real estate builder even though full consideration of the building has been paid is known as-

- a) Financial creditor
- b) Operational creditor
- c) Corporate Debtors
- d) Employee

(xxxix) Valuation report will not include

- a) Past performance of valuer
- b) Scope of work
- c) Assumptions made
- d) Key inputs used

(xxxix) Which of the following represents price of an option

- a) Time value + Intrinsic Value
- b) Time value-Intrinsic value
- c) Time value/Intrinsic value
- d) Time value x Intrinsic value

(xxxix) When cost of capital is equal to the required rate of return, it will be applicable to

- a) Common stock holder
- b) Equity stock holder
- c) Preferred stock holder
- d) Debenture holder

(xxxvii) In Black Scholes Model, a stock with call option

- a) Pays Dividend
- b) Pays no dividend
- c) Pays interest
- d) Pays no interest

(xxxviii) Banks Exchange their loans for Bonds. These Bonds are called

- a) Bank Bonds
- b) Brady Bonds
- c) Loan Bonds
- d) Treasury Bond

(xxxix) A call option of a share will decrease due to change in-

- a) Rate of interest
- b) Strike price
- c) Volatility
- d) None of these

(xl) A put option of a share will decrease due to change in-

- a) Rate of interest
- b) Strike price
- c) Volatility
- d) None of these

(xli) A straddle is an option strategy in which investors hold a position in

- a) Call option with same strike price and expiry date
- b) Put option with same strike price and expiry date
- c) Call and put option with same strike price and expiry date
- d) Call option with same strike price

(xlii) When weighted average cost of capital decreases, the debt equity ratio

- a) Decreases
- b) Increases
- c) Remains the same
- d) No relation between the two

(xliii) When Bonus shares are issued by the company, debt equity ratio

- a) Deteriorates
- b) Increases
- c) Remains the same
- d) Cannot be said

(xliv) Which one is not a competitive factor of the business?

- a) Price of substitutes
- b) Price of raw materials
- c) Price of competitors
- d) Government Policies

(xlv) Confidential matter in a valuation reports

- a) Has to be reported in a separate Annexure and not in main report
- b) Has to be reported in the main report
- c) Need not be reported at all
- d) At the discretion of valuer

(xlvi) As per model code of conduct of registered Valuers, an independent Valuer shall not indulge in

- a) Mandate Gifting
- b) Mandate Assurance
- c) Mandate Retention
- d) Mandate Snatching

(xlvii) Chairperson to the member of committee for valuation has duration of

- a) One year
- b) Two years
- c) Three years
- d) 5 Years

(xlviii) As an independent valuer, he will not charge

- a) Professional fees
- b) Auditor's fees
- c) Valuer fees
- d) Success Fees

(xlix) The valuer shall refrain from accepting if he is unlikely to be able to devote adequate time for each of his assignments

- a) more than one assignment
- b) More than three assignments
- c) Too many assignments
- d) Handful of assignments

(l) In Actuarial valuation assumption is based on-

- a) Mix of statistical studies and experienced judgments
- b) Probability of distribution
- c) Monte Carlo distribution
- d) Average distribution

(li) When attempting to build a risk premium into the required returns of stocks in a developing country, an analyst should use the _____.

- a) country spread model
- b) country's weighted average cost of capital
- c) modified Gordon growth model
- d) dividend discount model

(lii) An analyst is valuing a firm's equity using the 'Enterprise Value to Revenue Ratio' of similar firms. Which of the following is not a factor that the analyst should use?

- a) Revenue growth
- b) EBITDA margins
- c) Expected return
- d) Debt Equity ratio

(liii) Which of the following methods is included in 'Asset based approach' (cost-based approach)?

- a) Comparable Companies' Multiple Method
- b) Replacement Method
- c) Earnings Capitalization Method
- d) Discounted Cash Flow Method

(liv) Typical parameters used in quantitative methods to estimate discount for lack of marketability include _____.

- a) duration of the restriction and risk of the investment
- b) return of the investment
- c) dividends paid
- d) market size

(lv) A buyer who looked at seven very similar homes in a three year old subdivision made an offer on the home with the lowest list price. the buyer was utilizing the principal of

- a) Supply and demand
- b) Substitution
- c) Conformity
- d) Change

(lvi) A competitive market analysis is prepared by a real estate agent to estimate the likely sales price of a property. This analysis is based on the:

- a) Sales Comparison Method
- b) Gross rent multiplier
- c) Cost approach
- d) Income approach

(lvii) A property being appraised had 2,400 square feet, but a comparable used by the appraiser had only 2,250 square feet. The appraiser should

- a) Disregard the comparable because of dissimilar size
- b) Use the comparable but ignore the slight size difference
- c) Adjust the sale price of the comparable upward because of size difference
- d) Adjust the sale price of the comparable downward because of the size difference

(lviii) A seller agreed to sell a home with no down payment and the below market rate seller financing. The favorable financing could be expected to affect the

- a) Price but not the value of the property
- b) Value of the property but not the price
- c) Utility of the property
- d) Depreciation method

(lix) After determining the value of the improvements of an existing structure, the appraiser deducted this amount from the market value to determine the value attributed to the land. This appraisal method is known as

- a) Surplus productivity
- b) The abstractive method
- c) The development method
- d) The land residual method

(lx) An appraiser sets a replacement cost of a structure at \$120,000 and appraises the land value separately at \$80,000. The appraiser places an economic life on the structure at 50 years and states that it has an effective age of 10 years. Using the cost approach, the appraiser would appraise this property at

- a) 140000
- b) 160000
- c) 176000
- d) 200000