University of Petroleum & Energy Studies
College of Management & Economics Studies
Kandoli Campus, Dehradun
End Semester Examination – May, 2017

Programme Name: BBA FSM — **Semester _IV**
Subject: Valuation of Firms — **M.Marks: 100**
Subject code: BBCG 142 — **Duration: 3 Hrs**

Note: All sections are compulsory.

Section –A (Objective type) **(10*2 marks each-20 Marks)**

1. Cost of Capital refers to :
   a) Flotation Cost
   b) Dividend
   c) Required Rate of Return
   d) None of the above

2. Which of the following sources of funds has an Implicit Cost of Capital?
   a) Equity Share Capital
   b) Preference Share Capital
   c) Debentures
   d) Retained earnings

3. Which of the following has the highest cost of capital?
   a) Equity shares
   b) Loans
   c) Bonds
   d) Preferences shares

4. Cost of Capital for Government securities is also known as :
   a) Risk-free Rate of Interest
   b) Maximum Rate of Return
   c) Rate of Interest on Fixed Deposits
   d) None of the above

5. Beta, β, of risk-free investment is:
   a) Zero
   b) 1
   c) -1
   d) None of these
6. Which of the following will increase the required rate of return?
   a) Increase in Interest rates
   b) Increase in risk-free rate
   c) Increase in degree of risk-aversion
   d) All of the above

7. Systematic risk of a security can be measured by:
   a) Coefficient of variation
   b) Standard deviation
   c) Beta
   d) Range
8. In which of the following cases, the project is not acceptable?
   a) NPV<0
   b) IRR< Hurdle Rate
   c) Cost > Total Inflows
   d) All of the above
9. Which of the following statements is correct?
   a) If PI<1, its NPV is less than zero
   b) If PI=0, its NPV is greater than zero
   c) If PI>1, its NPV will be negative
   d) PI of a project is always greater than one

10. Profitability Index method is an extension of :
    a) Net Present Value
    b) Internal Rate of Return
    c) Payback Period
    d) Accounting Rate of Return

Section B **(4*5-20 Marks)**

Short type questions

Q2. Distinguish between Price and value.
Q3. What are the different approaches to Business Valuation?
Q4. What are the Advantages and limitations of Discounted Cash flow valuation
Q5. What is Economic Value Added? How it helps to value a firm?

Section C

Descriptive type Questions. **(3*10-30 Marks)**

Q6. What do you mean by Valuation Multiples, explain with examples?

Q7. What is terminal value. Illustrate how to calculate terminal value.

Q8. R Ltd. is having an issued and subscribed capital of 50,000 equity shares of Rs. 100 each fully paid up. The company's after tax profits for the year 2008-09 amounting to Rs. 30 lakhs. The average present stock exchange price of the company's share is Rs. 190. The Price/Earning ratio of the four listed companies to be used for calculation, their type of business seems to be similar to R Ltd. are:

Company	2007	2008	2009
A LTD	5.7	6.3	7.1
B LTD	6.5	5.9	6.8
C LTD	7.4	6.8	7.0
D LTD	5.0	5.9	6.1

Calculate the valuation of business and per share based on average P/E ratio of the industry

Section –D

Long type Numerical **(2*15 Marks)**

Q9. The initial investment for the project is Rs. 370 and its expected to earns a profit of Rs.100 each year with a growth rate of 15% for 5 years and thereafter at 4%.

The cost of capital may be assumed as 12% for calculation.

You are required to find out the value of the firm and the price of share if assumed the company has issued 100 shares.

Use DCF approach for Valuation.

Q10.

A co. has furnished the following ratios & information relating to the yr. ended 31st March 2008:

Sales	Rs.60,00,000
Current ratio	2
Share capital to reserves	7: 3
Rate of income-tax	30%
Return on net worth	25%
Net profit to sales (PAT/ Sales)	6 ¼%
Inventory turnover (based on cost of goods sold)	12
Cost of goods sold	Rs.18,00,000
Interest on debentures	Rs. 60,000
Sundry debtors	Rs. 2,00,000
Sundry creditors	Rs. 2,00,000

Required:

i) Determine the operating expenses for the year ended 31st March 2008.

ii) Draw the Balance Sheet as at 31st March in the following format by supplying the missing figures:

Balance Sheet as at 31st March 2008

Liabilities	Rs.	Assets	Rs.
Share Capital	...	Fixed Assets	...
Reserve & Surplus	...	Current Assets	...
15% Debentures	...	- Stock	...
Sundry Creditors	...	- Debtors	...
		- Cash	...