MODEL MCQS ON VALUATION EXAMINATION

1. Which of the following is a characteristic of capital as a factor of production?

A It never depreciates

B It is fixed in supply

C It is an active factor of production

D It is a passive factor of production

Answer: D

2. On which law of consumption, the concept of consumer's surplus is based?

A Engel's law

B Law of demand

C First law of Gossen

D Second law of Gossen

Answer: C

3. Which among the following are the factors that determine the national income of a country?

A Quantity and Quality of factors of production

B The state of technical knowledge

C Economic and political stability

D All of the above

Answer: D

4. Which among the following is NOT correct?

A During inflation lenders suffer and borrowers benefit out'

B Rising inflation indicates rising aggregate demand and indicates comparatively lower supply and higher purchasing capacity among the consumers'

C With rising inflation the currency of the economy depreciates provided it follows the flexible currency regime.

D Inflation decreases the nominal (face) value of the wages while the real value increases.

Answer: D

5. Which of the following is known as long run average cost curve?

A Learning curve

B Envelope curve

C Equal product curve

D Phillips curve

Answer: B

6. Which among the following is NOT correct?

A Floating exchange rate system works on the market mechanism

B Floating exchange rate breeds uncertainties and speculation

C Economic and political factors and value judgments influence the choice of the exchange rate system

D The system of floating exchange rate requires comprehensive government intervention

Answer: D

7. Fiscal Policy means:

A Policy relating to money and banking in a country

B Policy relating to non-banking financial institutions

C Policy relating to government spending' taxation and borrowing

D Policy relating to financial matters of international trade

Answer: C

8. The provisions of Insolvency and Bankruptcy Code, 2016 applies, in relation to_____________.

A Insolvency, liquidation, voluntary liquidation or bankruptcy

B Insolvency, liquidation, or bankruptcy

C Insolvency or bankruptcy

D None of the above

Answer: A

9. The Insolvency and Bankruptcy Code, 2016, does not cover

A Financial Institutions

B Insurance Company

C Mutual Funds & Pension Funds

D None of the above

E All the above

Answer: D

10. Which is the Appellate Authority under The Insolvency and Bankruptcy Code, 2016 Code:

A National Company Law Appellate Tribunal

B High Court

C Debt Recovery Appellate Tribunal

D Special Courts

Answer: A

11. If a person, other than a statutory body, wants to hold more than 10% of the share capital in an Insolvency Professional Agency, such a person shall seek the approval of:

A Insolvency and Bankruptcy Board of India

B Insolvency Professional Agency

C Registrar of Companies

D National Company Law Tribunal

Answer: A

12. Which of the following entity is eligible to obtain registration as an Insolvency Professional Agency:

A Partnership Firm

B HUF

C Section 8 Company under Companies Act, 2013

D Limited Liability partnership

Answer: C

13. What shall be the minimum net worth of an Insolvency Professional Agency:

A Rupees One Crore

B Rupees Ten Crores

C Rupees Five Crores

D Rupees Fifteen Crores

Answer: B

14. The Valuer appointed under section 247(1) Section of Companies Act 2013 shall exercise ……………while performing the functions as Valuer.

A Due care

B Due Diligence

C Due performance

D Due responsibility

Answer: B

15. A valuer shall maintain complete independence in his/its professional relationships and shall conduct the valuation independent of ……….

A External influences

B Client influences

C Internal influences

D Management influences

Answer: B

16. In the preparation of a valuation report, the valuer shall not disclaim liability for his/its expertise or deny his/its ……………. except to the extent that the assumptions are based on statements of fact provided by the company or its auditors or consultants or information available in public domain and not generated by the valuer.

A Duty of care

B Duty of valuation

C Duty of diligence

D Duty

Answer: A

17. As per Section 2(84) of Companies Act 2013, Share means share in the share capital of a Company and includes__________

A Debentures

B Preference Shares

C Stocks

D Bonds

Answer: C

18. A Company can bring of Preference shares by passing_________

A Board Resolution

B Ordinary Resolution

C Unanimous Resolution

D Special Resolution

Answer: D

19. A company may issue Bonus shares, out of________

A Free reserves

B Securities Premium A/c

C Capital redemption reserve A/c

D All of the above

Answer: D

20. Rule 18(7) of the companies (share Capital and Debenture Rules, 2014 states about __________

A Debenture Trustee

B Debenture Trust Deed

C Debenture Redemption Reserve

D Roll Over of Debenture

Answer: C

21. Which of the following can be transferred under the Transfer of Property Act, 1882?

A. An easement along with the dominant heritage

B. Political pension

C. Succession

D. Stipend allowed to the civil pensioners of the Government

Answer: A

22. Duration of agriculture lease in the absence of written contract or local usage under section 106 of Transfer of Property Act, shall be deemed to be a lease—

A. From month to month

B. Of eleven months

C. From year to year

D. Of twelve year

Answer: C

23. Every instrument mentioned in ………………………which is executed in India shall be chargeable to duty under Indian Stamp Act 1899.

A Schedule-II

B Schedule –III

C Schedule-I

D None of the above

Answer: C

24. The assessee lets on hire machinery, plant or furniture belonging to him and also building and the letting of the buildings is inseparable from the letting of the said machinery, plant and furniture, the income from such letting is chargeable to tax under the head _______________under the Indian Income Tax Act 1961.

A Income from Business

B Income from Capital Gain

C Income from Other Sources

D Profit and Gain from Business or Profession

Answer: C

25. Under Indian Income Tax Act 1961, Income from property held under trust for charitable or religious purposes is ______________.

A Exempted from tax

B Taxable @ 10%

C Taxable @ 20%

D None of the above

Answer: A

26. Loss from speculation business cannot be set off against profit from any non-speculation business, however _______________.

A Loss from non-speculative business can be set off against speculation income

B Loss from non-speculative business cannot be set off against speculation income

C Profit from non-speculative business can be set off against speculation income

D None of the above

Answer: A

27. Which of the following Committee was formed by SEBI for improving standards of Corporate Governance of Listed Companies in India?

A Naresh Chandra Committee

B N.R. Narayan Murthy Committee

C Kotak Committee

D Kumar Mangalam Birla Committee

Answer: C

28. Under the forward exchange contract:

A the exchange rate is determined on the future date

B delivery of foreign exchange is on a predetermined future date

C the parties agree to meet at a future date for finalization

D none of the above

Answer: B

29. A firm operating in India cannot hedge its foreign currency exposure through:

A forwards

B futures

C options

D none of the above

Answer: B

30. The ratios that refer to the ability of the firm to meet the short-term obligations out of its short-term resources

A Liquidity ratio

B Leverage ratios

C Activity ratios

D Profitability ratios

Answer: A

31. The following is not a type of liability

A Short term

B Current

C Fixed

D Contingent

Answer: A

32. The following is also known as External Internal Equity ratio

A Current ratio

B Acid test ratio

C Debt Equity ratio

D Debt service coverage ratio

Answer: C

33. A Low Return on Investment Ratio (ROI) indicates

A Improper utilization of resources

B Over investment in assets

C Both ‘A’ and ‘B’

D None of the above

Answer: C

34. Export under Foreign Exchange Management Act, 1999 means:

A the taking out of India to a place outside India any goods

B provision of services from India to any person outside India

C both the above

D none of the above

Answer: A

35. The listing regulations have been sub-divided into __________________.

A Two parts; substantive provisions incorporated in the main body of Regulations and procedural requirements in the form of Schedules to the Regulations

B Two parts; substantive provisions incorporated in the main body of Regulations and juridical requirements in the form of Schedules to the Regulations

C Three parts; substantive provisions incorporated in the main body of Regulations, procedural requirements in the form of Schedules to the Regulations and Listing for Merger and amalgamation

D Three parts; substantive provisions incorporated in the main body of Regulations, juridical requirements in the form of Schedules to the Regulations and Listing for Merger and amalgamation

Answer: A

36. Export under Foreign Exchange Management Act, 1999 means:

A the taking out of India to a place outside India any goods

B provision of services from India to any person outside India

C both the above

D none of the above

Answer: C

37. Exchange control as a method of correcting balance of payments equilibrium does not include:

A exchange restriction

B exchange intervention

C exchange reserves

D exchange clearing arrangement

Answer: C

38. Which of the following is not a prescribed asset class under the Companies (Registered Valuers and Valuation) Rules, 2017?

A Enterprise

B Securities or Financial Assets

C Plant and Machinery

D Land and Building

Answer: A

39. Section 3(1)(b) of SARFAESI Act provides that the net owned fund of an asset reconstruction company should:

A Not be less than two crore rupees or such higher amount as the Reserve Bank may notify

B Not be less than three crore rupees or such higher amount as the Reserve Bank may notify

C Not be less than four crore rupees or such higher amount as the Reserve Bank may notify

D Not be less than one crore rupees or such higher amount as the Reserve Bank may notify

Answer: A

40. Which of the following is not a condition that is considered by the RBI in case of application for registration or carrying on business by an Asset Reconstruction Company (ARC):

A that the ARC has not incurred losses in any of the three preceding financial years

B that the directors of ARC have not entered into related party transactions

C that the directors of ARC have adequate professional experience in matters related to finance, securitization, and re-construction

D That a sponsor of an ARC is a fit and proper person in accordance with the criteria issued by RBI

Answer: B

41. Relationship between annual nominal rate of interest and annual effective rate of interest, if frequency of compounding is greater than one:

A Effective rate > Nominal rate

B Effective rate < Nominal rate

C Effective rate = Nominal rate

D None of the above

Answer: **A**

42. **Mr. X takes a loan of Rs 50,000 from HDFC Bank. The rate of interest is 10% per annum. The first instalment will be paid at the end of year 5. Determine the amount of equal annual instalments if Mr. X wishes to repay the amount in five instalments.**

A Rs 19500

B Rs 19400

C Rs 19310

D None of the above

Answer: **C**

43. **Quick ratio is 1.8:1, current ratio is 2.7:1 and current liabilities are Rs 60,000. Determine value of stock.**

A Rs 54,000

B Rs 60,000

C Rs 1, 62,000

D None of the above

Answer: **A**

44. **Under Ind AS 109 Financial Instruments which of the following should be held at fair value?**

(i) An interest rate swap

(ii) 7% 2020 bonds acquired with the intention to hold to maturity

(iii) An investment in the ordinary shares of Milk Plc

(iv) An investment in a convertible loan note

A (i) only

B (ii) only

C All of the above

D (i), (iii) and (iv)

Answer: **D**.

45. **In accordance with Ind AS 103 Business Combination, which of the following statements are correct:**

A. Goodwill should be reviewed annually for test of impairment,

B. Goodwill should be amortized for a period of twenty years,

C. The carrying value of goodwill should be revised annually to reflect fair value of assets

D. Goodwill should not be disclosed in statement of financial position.

Answer: A

46. **K Ltd acquired al the 5,00,000 shares of C Ltd as at 1st January 2012 for Rs.25 per share. Just before the acquisition date, C Ltd's Balance Sheet reported net assets of Rs.10 million. K Ltd did a financial due diligence and determined the fair value of C Ltd's property and equipment at Rs. 1 million higher than the amount reported by Cola. What would be the amount of goodwill calculated by K Ltd on acquisition of C Ltd?**

A. Rs. 5,00,000

B. Rs. 15,00,000

C. Rs. 0

D None of the above

Answer: B

47. In accordance with Ind AS 109, hedge accounting can be applied to the following types of hedging relationships:

A. Fair value hedge,

B. Cash flow hedge,

C. Hedges of a net investment in a foreign operation,

D. All of the above.

Answer: D

48. Dominic Ltd has issued 10,000 convertible debentures with a face value of Rs. 100 per debenture. The interest rate on the debentures is 5%. The debenture holders have the option of converting these debentures into ordinary shares at the end of four years. The prevailing market rate for a similar debt which does not have a conversion right is 7%.

Present Value of Rs. 1 at 7% after 4 years would be 0.763.

Present Value of Annuity of Rs.1 after 4 years would be 3.387.

The carrying amount of the debt portion of convertible debentures would be:

A. Rs.1,000,000.

B. Rs. 932,350.

C. Rs. 950,000

D. None of the above.

Answer: B

49. From the above example the carrying amount of equity portion of the convertible debentures would be:

A Rs. Nil.

B Rs. 65,350.

C Rs. 67,650

D Rs. 69,650

Answer: C

50. A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

The cash generating unit would be:

A Bus

B Route

C The bus company as a whole

D None of the above

Answer: C

51. **T Ltd owns a patent for an established successful drug that has a remaining life of 8 years. A firm of specialized advisors has estimated current value of patent at Rs 20 m.**

However, the firm is awaiting clinical trials, which if successful would push the value upwards to Rs. 35 m. Value of patent to be considered under *IAS 38: Intangible Assets* would be:

A Rs.35 Million

B Rs.20 Million

C Rs.10 Million

D None of the above.

Answer: B

52. **O Ltd purchased a 6% bond at par for Rs.1,000,000 at the beginning of the year, interest rates have recently increased, and the market value of the bond declined by Rs.20,000. Determine the bond's effect on O Ltd's financial statements under classification of securities under the following options.**

A The bond would be treated under fair value through profit or loss.

B The bond would be treated under amortized cost and resultant interest income capitalized.

C The bond would be treated under amortized cost and resultant interest income considered under Statement of Profit & Loss.

D None of the above.

Answer: C

53. **S Ltd a software house has a software solution whose original cost was Rs. 250,000. The accumulated amortization on the software solution is Rs. 85000. S Ltd recently sold another similar software solution at Rs. 340,000 and the selling expenses were Rs. 23,000. Management has determined the value in use of the software solution as Rs. 330,000.**

The recoverable value would be:

a) Rs.165,000

b) Rs.317,000

c) Rs.330,000

d) None of the above

Answer: C

54. **Basis of valuation of a non-financial asset by market participants that would maximize the value of the asset or the group of assets (e.g., a business) within which the asset would be used is considered as.**

A Replacement basis

B Going concern basis

C Highest and Best Use basis

D None of the above

Answer: C

55. **Net present value of expected future cash flows completely independent of any acquisition is considered as**

A Synergy value

B Intrinsic value

C Market value

D None of the above

Answer: **B**

56. The term "capital structure" refers to:

A Long-term debt, preferred stock, and common stock equity.

B Current assets and current liabilities.

C Total assets minus liabilities.

D Shareholders' equity.

Answer: A

57. The weighted average cost of capital for a firm is the:

A Discount rate which the firm should apply to all of the projects it undertakes.

B Overall rate which the firm must earn on its existing assets to maintain the value of its stock.

C Rate the firm should expect to pay on its next bond issue.

D Maximum rate which the firm should require on any projects it undertakes.

E Rate of return that the firm's preferred stockholders should expect to earn over the long term.

Answer: B

58. Using the CAPM to calculate the cost of capital for a risky project assumes that:

A using the firm's beta is the same measure of risk as the project.

B the firm is all-equity financed.

C the financial risk is equal to business risk.

D Both A and B.

E Both A and C.

Answer: D

59. If the project beta and NPV coordinates plot above the WACC the project should be:

A accepted.

B rejected.

C It is impossible to tell.

D None of the above.

Answer: A

60. Betas may vary substantially across an industry. The decision to use the industry or firm beta: to estimate the cost of capital depends on

A how small the estimation errors are of all betas across industries.

B how similar the firm's operations are to the operations of all other firms in the industry.

C whether the company is a leader or follower.

D the size of the company's public float.

E None of the above.

Answer: B

61. Belpahari Enterprises stock is listed on Dalal Street. The firm is planning to issue some new equity shares for sale to the general public. This sale will occur in which one of the following markets?

A. private

B. auction

C. exchange floor

D. secondary

E. primary

Answer: E

62. What adjustment is made while using the Discounted Cash Flow method to value cyclical companies?

A Normalize earnings

B Use high discount rate

C Use bank rate for discounting

D Use high growth rate

Answer: D

63 An investment entity evaluates the performance of its investments on value basis.

A fair

B book

C market

D use

Answer: A

64. ABC Ltd common stock sells for Rs.44.96 a share and has a market rate of return of 12.8 percent. The company just paid an annual dividend of Rs.1.04 per share. What is the dividend growth rate?

A. 8.29 percent

B. 8.45 percent

C. 9.23 percent

D. 9.67 percent

E. 10.25 percent

Answer: E

65. XYZ Ltd is going to pay an annual dividend of Rs.2.86 a share on its common stock next year. This year, the company paid a dividend of Rs.2.75 a share. The company adheres to a constant rate of growth dividend policy. What will one share of this common stock be worth five years from now if the applicable discount rate is 11.7 percent?

A. Rs.43.45

B. Rs.43.87

C. Rs.44.15

D. Rs.45.19

E. Rs.47.00

Answer: D

66. Delta Ltd is expected to pay a dividend of Rs.3.50 in the coming year. Dividends are expected to grow at a rate of 10% per year. The risk-free rate of return is 5% and the expected return on the market portfolio is 13%. The stock is trading in the market today at a price of Rs.90.00. What is the market capitalization rate for Delta Ltd?

A. 13.6%

B. 13.9%

C. 15.6%

D. 16.9%

E. None of these is correct

Answer: B

k = 3.50/90 + .10; k = 13.9%

67. What is the approximate beta of Delta's stock?

A. 0.8

B. 1.0

C. 1.1

D. 1.4

E. None of these is correct

Answer: C

k = 13.9%; 13.9 = 5% + b (13% − 5%) = 1.11.

68. XYZ Company is expected to pay a dividend of Rs.8 in the coming year. Dividends are expected to decline at the rate of 2% per year. The risk-free rate of return is 6% and the expected return on the market portfolio is 14%. The stock of XYZ Company has a beta of -0.25. The intrinsic value of the stock is _____.

A. Rs.80.00

B. Rs.133.33

C. Rs.200.00

D. Rs.400.00

E. None of these is correct

Answer: B

k = 6% + [−0.25(14% − 6%)] = 4%; P = 8/[.04 − (−.02)] = Rs.133.33.

69. The Gordon model

A. is a generalization of the perpetuity formula to cover the case of a growing perpetuity.

B. is valid only when g is less than k.

C. is valid only when k is less than g.

D. is a generalization of the perpetuity formula to cover the case of a growing perpetuity and is valid only when g is less than k.

E. is a generalization of the perpetuity formula to cover the case of a growing perpetuity and is valid only when k is less than g.

Answer: D

70. PBC Ltd paid an annual dividend of Rs.1.42 a share last month. The company is planning on paying Rs.1.50, Rs.1.75, and Rs.1.80 a share over the next 3 years, respectively. After that, the dividend will be constant at Rs.2 per share per year. What is the market price of this stock if the market rate of return is 10.5 percent?

A. Rs.15.98

B. Rs.16.07

C. Rs.18.24

D. Rs.21.16

E. Rs.24.10

Answer: C

$$P1 = \frac{Rs.2}{0.105} = Rs.19.05$$

$$P0 = \frac{1.50}{(1+0.105)1} + \frac{Rs.1.75}{(1+0.105)2} + \frac{Rs.1.80 + Rs.19.05}{(1+0.105)3} = Rs.18.24$$

71. Given the following two stocks A and B Expected rate of return Beta

A 12.5% 1.2

B 14.0% 1.8

If the expected market rate of return is 0.09 and the risk-free rate is 0.05, which security would be considered the better buy and why?

A A because it offers an expected excess return of 1.2%.

B B because it offers an expected excess return of 1.8%.

C A because it offers an expected excess return of 2.7%.

D B because it offers an expected return of 14%.

E B because it has a higher beta.

Answer: C

72. A project has an up-front cost of Rs.100,000. The project's WACC is 12 percent and its net present value is Rs.10,000. Which of the following statements is most correct?

A The project should be rejected since its return is less than the WACC.

B The project's internal rate of return is greater than 12 percent.

C The project's modified internal rate of return is less than 12 percent.

D All of the statements above are correct.

E None of the statements above is correct.

Answer: B

73. The required rate of return on equity is the most appropriate discount rate to use when applying a……………valuation model.

A. FCFE

B. FCEF

C. DDM

D. FCEF or DDM

E. P/E

Answer: A

The most appropriate discount rate to use when applying a FCFE valuation model is the required rate of return on equity.

74. FCF and DDM valuations should be if the assumptions used are consistent.

A. very different for all firms

B. similar for all firms

C. similar only for unlevered firms

D. similar only for levered firms

E. None of these is correct

Answer: B

FCF and DDM valuations should be similar for all firms if the assumptions used are consistent.

75. Low P/E ratios tend to indicate that a company will, ceteris paribus.

A. grow quickly

B. grow at the same speed as the average company

C. grow slowly

D. P/E ratios are unrelated to growth

E. None of these is correct

Answer: C

Investors pay for growth; hence a relatively high P/E ratio for growth firms.

76. ABC Ltd is expected have EBIT of Rs. 2.3M this year. ABC Ltd is in the 30% tax bracket, will report Rs.175,000 in depreciation, will make Rs.175,000 in capital expenditures, and have no change in net working capital this year. What is ABC Ltd's FCFF?

A. 2,300,000

B. 1,785,000

C. 1,960,000

D. 1,610,000

E. 1,435,000

Answer: D

FCFF = EBIT (1 − T) + depreciation − capital expenditures − increase in NWC or 2,300,000(.7) + 175,000 − 175,000 − 0 = 1,610,000

77. Which of the following defines a Note?

I. secured

II. unsecured

III. maturity less than 10 years

IV. maturity in excess of 10 years

A. III only

B. I and III only

C. I and IV only

D. II and III only

E. II and IV only

Answer: D

78. Atlas Entertainment has 15-year bonds outstanding. The interest payments on these bonds are sent directly to each of the individual bondholders. These direct payments are a clear indication that the bonds can accurately be defined as being issued:

A. at par.

B. in registered form.

C. as debentures.

D. as callable.

Answer: B

79. An indenture is:

A. another name for a bond's coupon.

B. the written record of all the holders of a bond issue.

C. a bond that is past its maturity date but has yet to be repaid.

D. a bond that is secured by the inventory held by the bond's issuer.

E. the legal agreement between the bond issuer and the bondholders.

Answer: E

80. Gamma Ltd just issued 15-year, 8 percent, unsecured bonds at par. These bonds fit the definition of which one of the following terms?

A. note

B. discounted

C. zero-coupon

D. callable

E. debenture

Answer: E

81. A corporate bond is quoted at a price of 103.16 and carries a 6.50 percent coupon. The bond pays interest semi-annually. What is the current yield on one of these bonds?

A. 6.24 percent

B. 6.30 percent

C. 6.36 percent

D. 6.62 percent

Answer: B

Current yield = (0.065 $\times$ Rs.1,000)/(1.0316 $\times$ Rs.1,000) = 6.30 percent

82. You purchased an investment which will pay you Rs.8,000, a year for the next three years. Each payment will be received at the end of the period with the first payment occurring one year from today. The nominal discount rate is 7.5 per cent and the inflation rate is 2.9 percent. What is the present value of these payments?

A. Rs.21,720

B. Rs.22,004

C. Rs.22,511

D. Rs.23,406

E. Rs.23,529

Answer: B

$$r = \frac{1 + 0,075}{1 + 0.029} - 1 = 0.0447$$

$$PV = \frac{Rs.8,000}{1+0.04471} + \frac{Rs.8,000}{1+0.04472} + \frac{Rs.8,000}{1+0.04473} = Rs.22,004$$

83. A Treasury yield curve plots Treasury interest rates relative to which one of the following?

A. market rates

B. comparable corporate bond rates

C. the risk-free rate

D. inflation

E. maturity

Answer: E

84. An 8 percent corporate bond that pays interest semi-annually was issued last year. Which two of the following most likely apply to this bond today if the current yield-to-maturity is 7 percent?

I. a structure as an interest-only loan

II. a current yield that equals the coupon rate

III. a yield-to-maturity equal to the coupon rate

IV. a market price that differs from the face value

A. I and III only

B. I and IV only

C. II and III only

D. II and IV only

E. III and IV only

Answer: B

85. A situation where the futures price is above the spot price of the underlying asset is called:

A Positive carry

B Arbitrage gain

C Contango

D Normal backwardation

Answer: C

86. The following factors may impact return of stocks:

A Inflation rate

B Interest rate fluctuation

C Business cycle

D All of the above

Answer: D

87. Calculate unlevered beta using the information below:

Levered beta	1.25
Debt to equity ratio	40%
Marginal tax rate	25%

A. 0.96
B. 1.00
C. 1.12
D. 1.35

Answer (A) Unlevered beta = $\dfrac{\text{Levered beta}}{(1+ D/E \text{ X } (1 – t)}$

= 1.25 / (1 + 0.4 x (1-0.25)
= 1.25 / 1.30
= 0.96

88. Calculate levered beta using the information below:

Unlevered beta	1.00
Debt to equity ratio	45%
Marginal tax rate	25%

A. 1.01
B. 1.25
C. 1.34
D. 1.42

Answer (C) Levered beta = Unlevered beta x (1 + D/E) X (1-t)

= 1.00 x (1 + 0.45 x (1 – 0.25)

= **1.34**

Case study (89-91)

Alpha Ltd took a loan of Rs.25 million from Beta Ltd at an annual interest rate of 5% on 1 April 2010. The principal is repayable on 31 March 2015. The interest is to be paid annually in arrears. Beta Ltd is provided with an option to convert this loan into ordinary shares of Alpha Ltd on 31 March 2015. The annual market interest rate on nonconvertible loans on 1 April 2010 was 8 %. Finance costs in the books of Alpha Ltd include Rs.1.25 million (Rs.25 million x 5/100).

Note - Discount factors are as follows:

	5% annual discount rate	8% annual discount rate

Present value of Re.1 payable in 5 years	78 paise	68 paise
Cumulative present value of $1 payable at the end of years 1-5	Rs. 4·33	Rs. 3·99

89. Determine the value of equity component to be disclosed as on 31 March 2020.(Rs'000)

A Rs. 3,012

B Rs. 22,497

C Rs. 21,988

D Rs. 21,500

90. What is the finance cost for the period ended 31st March 2020 (Rs'000)

A Rs 1750

B Rs.1759

C Rs 1800

D None of the above

91. Determine the value of debt component to be disclosed as on 31 March 2020.

A Rs. 3,012

B Rs. 22,497

C Rs. 21,988

D Rs. 21,500

89. The answer is A.

The loan is a compound financial instrument and must be split into debt and equity components.

	Rs'000
The debt component is (Rs.1,250 x 3.99) + (Rs.25,000 x 0.68)	21,988
Therefore, the equity component is (Rs.25,000 – Rs.21,988)	3,012
	25,000

90. Answer is B

Finance cost for the period is Rs, 21,988 x 8% (Rs'000) = 1,759

91. The answer is B.

Extracts of Alpha Ltd's statement of financial position on 31 March 2020

	Rs'000
Equity Equity component of bond	3,012
Non-current liabilities Interest bearing borrowings (Schedule 1)	22,497

Schedule 1 Interest bearing borrowings

	Rs'000
Initial liability	21,988

Add: Finance cost Less: Interest paid	1,759 (1,250)
Closing liability	22,497