

MODEL QUESTION PAPER FOR VALUATION EXAMINATION

Asset Class: FINANCIAL ASSETS

1. The national output is measured at _____.

- a) Production Prices
- b) Market Prices
- c) Cost Prices
- d) Wholesale Prices

Ans.(b)

2. Which of the following is a Revenue Receipt?

- a) Loan from the International Monetary Fund
- b) Grant from the World Bank
- c) Borrowing from the Public
- d) Public Issue of shares

Ans.(b)

3. What is the relation between fiscal deficit (FD) and primary deficit (PD)?

- a) $PD = FD - \text{Depreciation}$
- b) $PD = FD - \text{Interest payments}$
- c) $FD = PD - \text{Interest payments}$
- d) $FD = PD - \text{Depreciation}$

Ans.(b)

4. Private ownership of property and resources is a characteristic of _____ economy.

- a) Socialist
- b) Command
- c) Market
- d) Traditional

Ans.(c)

5. An investment pays Rs. 300 annually for five years, with the first payment occurring today. The present value (PV) of the investment discounted at a 4% annual rate is approximately _____.

- a) 1336

- b) 1389
- c) 1625
- d) 1925

Ans.(b)

6. Which of the following may not be a part of projected financial statements?

- a) Income Statements
- b) Trial Balance
- c) Cash Flow Statements
- d) Balance Sheets

Ans.(b)

7. Securities issued by companies are traded in _____.

- a) derivatives market
- b) tertiary market
- c) primary market
- d) secondary market

Ans.(d)

8. Which of the following is not a conduct most people associate with ethical behaviour?

- a) Bargaining
- b) Respect for others
- c) Loyalty
- d) Pursuit of excellence

Ans.(a)

9. As an independent valuer, the valuer should not charge _____ fee.

- a) professional
- b) success
- c) mandate
- d) legal

Ans.(b)

10. A valuer should not use or divulge to other clients or any other party any confidential information about the _____ company.

- a) subject
- b) client
- c) public
- d) listed

Ans.(a)

11. Professional independence is a subset of which one of the following pairs of fundamental principles?

- a) Integrity and Due diligence
- b) Integrity and objectivity
- c) Integrity and Professional competence
- d) Objectivity and Professional behaviour

Ans.(b)

12. Which of the following describes the main purpose of corporate governance?

- a) Establish short-term strategic objectives for a company.
- b) Ensure collective strategic decisions for a company.
- c) Facilitate effective, entrepreneurial and prudent management of a company
- d) Establish and monitor the operating parameters for a company.

Ans.(c)

13. Debt Equity Ratio is 3:1, the amount of total assets Rs.20 lac, current ratio is 1.5:1 and owned funds Rs.3 lac. What is the amount of current asset?

- a) Rs.5 lac
- b) Rs.3 lac
- c) Rs.12 lac
- d) Rs.15 lac

Ans.(c)

14. Which one of the following statements is correct concerning the weighted average cost of capital (WACC)?

- a) The WACC may decrease as a firm's debt-equity ratio increases
- b) In the computation of WACC, weight assigned to the preferred stock is based on the coupon rate multiplied by the par value of the stock.
- c) A firm's WACC will decrease as the corporate tax rate decreases
- d) The weight of the common stock used in the computation of the WACC is based on the number of shares outstanding multiplied by the book value per share

Ans.(a)

15. Which of the following is not a cash inflow?

- a) Decrease in debtors
- b) Issue of Shares
- c) Decrease in Creditors
- d) Sale of Fixed Assets

Ans.(c)

16. In the context composition of the committee to advise on valuation matters under the Companies (Registered Valuers and Valuation) Rules, 2017, strike the odd one out:

- a) One member nominated by MCA
- b) Two members nominated by RBI
- c) One member nominated by the Legislative Department
- d) One member nominated by IBBI

Ans.(b)

17. Who is the authority for registration of valuers under the Companies (Registered Valuers and Valuation) Rules, 2017?

- a) MCA
- b) NFRA
- c) IBBI
- d) NCLT

Ans.(c)

18. 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 Buildings

Ans.(a)

19. Which of the following is not eligible to be registered as a valuer?

- a) Registered Partnership Firm
- b) Limited Liability Partnership

- c) Limited Liability Comp may
- d) Hindu Undivided Family

Ans.(d)

20. In agreements of a purely domestic nature, the intention of the parties to create legal relationship is _____.

- a) to be proved to the satisfaction of the court.
- b) presumed to exist.
- c) required to the extent of consideration.
- d) not relevant at all.

Ans.(a)

21. A person appointed by an agent to act for the principal, is called _____.

- a) agent
- b) sub-agent
- c) substituted agent
- d) pretended agent

Ans.(b)

22. 'Let the Buyer Beware' refers to:

- a) Caveat Venditor
- b) Unfair Trade Practices
- c) Caveat Emptor
- d) Exmtor Venditor

Ans.(c)

23. 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) Stipends allowed to the civil pensioners of the Government

Ans.(a)

24. 'A' leases land to 'B' on condition that he shall walk a hundred miles in an hour. The lease is _____.

- a) valid
- b) void
- c) voidable
- d) legal

Ans.(b)

25. How is stamp duty paid in transactions where more than one instrument is required?

- a) Stamp Duty is paid on all the instruments equally
- b) Stamp Duty is paid on any one of the instrument
- c) Stamp duty is paid only on one of the principal instruments and on the balance documents only minimum duty is payable
- d) Stamp duty is paid on ad valorem basis

Ans.(c)

26. As per the Competition Act, 2002, the sale of goods at a price, which is below the cost of production with a view to eliminate the competitors is called _____.

- a) predatory price
- b) preparatory price
- c) entry barrier price
- d) exit barrier price

Ans.(a)

27. An agreement among the companies at the same level of the production chain is called _____ in competition parlance.

- a) vertical agreement
- b) horizontal agreement
- c) transparent agreement
- d) cross agreement

Ans.(b)

28. As per section 40(b) of the Income Tax Act, 1961, upto ____ % per annum simple interest on capital is allowed towards remuneration of working partners.

- a) 6
- b) 12
- c) 15
- d) 16

Ans.(b)

29. Salary under section 17(1) of the Income Tax Act, 1961 does not include _____.

- a) wages
- b) pension
- c) interest
- d) gratuity

Ans.(c)

30 Who determines the amount of claim due to a creditor under the Insolvency and Bankruptcy Code, 2016?

- a) Committee of creditors.
- b) Resolution professional.
- c) Adjudicating Authority.
- d) Corporate debtor

Ans.(b)

31. Under the Insolvency and Bankruptcy Code, 2016, debts owed to a secured creditor in the event such secured creditor has relinquished security ranks equally with _____.

- a) insolvency resolution process costs.
- b) workmen's dues for a period of 24 months prior to liquidation commencement date
- c) wages and any unpaid dues owed to employees other than workmen for the period of twelve months preceding the liquidation commencement date
- d) dues to Central Government

Ans.(b)

32. Which of the following is not a financial service under the Insolvency and Bankruptcy Code, 2016?

- a) Accepting of deposits
- b) Effecting contracts of insurance
- c) Payment of wages to employees
- d) Establishing or operating an investment scheme

Ans.(c)

33. Which of the following situations would invoke "question of law"?

- a) Disputing parties do not agree to the valuation arrived by the valuer
- b) Disputing parties do not agree to the selected valuer

- c) Valuer has departed from the well accepted principles of valuations
- d) Valuer did not submit its report within the time

Ans.(c)

34. Karan bought 1000 share of Infosys Limited at Rs. 910/- from his broker excluding brokerage and taxes however current market price of that share was Rs. 915/-. In this statement amount of Rs. 915/- reflects _____.

- a) value of share
- b) cost of investment
- c) investment value
- d) price of transaction

Ans.(a)

35. Under the Insolvency and Bankruptcy Code, 2016, the fees of the liquidator is paid from the proceeds of sale of the _____ of the corporate debtor.

- a) unencumbered liabilities
- b) liquidation assets
- c) liquidation fund
- d) unencumbered reserves

Ans.(b)

36. Value of a firm is usually based on _____.

- a) the value of debt and equity
- b) the value of assets and liabilities
- c) the value of debt
- d) the value of equity

Ans.(d)

37. An asset is officially appraised and priced on _____.

- a) Verification date
- b) valuation date
- c) report date
- d) effective date

Ans.(b)

38. Which one of the following is covered in the valuation report?

- a) Proposed Transaction
- b) Related Parties
- c) Share Holding Pattern
- d) Valuation Methodologies

Ans.(d)

39. Which of the following valuation methods would most likely not be used for business valuation?

- a) Discounted Cash Flow
- b) Net Assets Method
- c) Multi-period Excess Earning Method
- d) Industry Price Earnings Ratio DCF

Ans.(c)

40. 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

Ans.(a)

41. A disadvantage of the EV method for valuing equity is that the following information may be difficult to obtain _____.

- a) operating income.
- b) market value of debt.
- c) market value of equity.
- d) cash & Cash Equivalent

Ans.(b)

42. 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

Ans.(d)

43. 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

Ans.(b)

44. Which of the following would most likely be useful for performing sensitivity analysis of business valuation?

- a) Standard of Value
- b) Understanding of business
- c) Premise of Value
- d) Audit Opinion

Ans.(b)

45. What do 'Cash Cows' symbolize in The Boston Consulting Group's product portfolio matrix?

- a) Remain Invested
- b) Problem Child
- c) Stable Cash Flow
- d) Cash Traps Liquidate

Ans.(c)

46. 'Economies of Scale' arises from _____ synergy in Merger and Acquisitions.

- a) operating
- b) financial
- c) managerial
- d) market

Ans.(a)

47. Which of the following represent the three major categories of risks faced by a business organisation?

- a) Business risks, personnel risks, budget risks
- b) Project risks, technical risks, business risks
- c) Planning risks, technical risks, personnel risks

- d) Management risks, technical risks, design risks

Ans.(b)

48. In time-series analysis, which source of variation can be estimated by the ratio-to-trend method?

- a) Cyclical
- b) Trend
- c) Seasonal
- d) Irregular

Ans.(c)

49. In case of valuation of firms for takeovers, which of the following provides a better estimate of value?

- a) Cash flows
- b) Free cash flows
- c) Future cash flows
- d) Free cash flow to equity

Ans.(d)

50. When investors use a derivative instrument to reduce his exposure to the price volatility of certain underlying assets, he is said to be _____.

- a) speculating
- b) investing
- c) arbitraging
- d) hedging

Ans.(c)

51. Which of the following is an asset pricing model based on the ideas that an asset's returns can be predicted using the relationship between that asset and many common risk factors?

- a) Arbitrage pricing theory
- b) Arbitrage risk theory
- c) Arbitrage asset theory
- d) Risk pricing theory

Ans.(a)

52. 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

Ans.(a)

53. Which is a type of preferred stock that stockholders can exchange for a predetermined number of a company's common stock?

- a) Prior preferred stock
- b) Convertible preferred stock
- c) Participating preferred stock
- d) Cumulative preferred stock

Ans.(b)

54. Agency bonds are issued by _____.

- a) local governments.
- b) national governments.
- c) quasi-government entities.
- d) corporates

Ans.(c)

55. If interest rates are expected to increase, the coupon payment structure most likely to benefit the issuer is a _____.

- a) step-up coupon.
- b) inflation-linked coupon.
- c) put option
- d) cap in a floating-rate note.

Ans.(d)

56. Which of the following bonds has the shortest duration?

- a) A bond with 20-year maturity, 10% coupon rate
- b) A bond with 20-year maturity, 6% coupon rate
- c) A bond with 10-year maturity, 6% coupon rate
- d) A bond with 10-year maturity, 10% coupon rate

Ans.(d)

57. _____ is the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of interest and principal.

- a) Default risk
- b) Credit spread risk
- c) Volatility risk
- d) Downgrade risk

Ans.(a)

58. What is the value of Three-Year 4.25% Annual Coupon Bond Puttable at Par one year from now if one year forward rates at T (0), T (1) and T (2) are 2.50%, 3% and 4.5% respectively?

- a) 101.5
- b) 101.71
- c) 102.67
- d) 102.89

Ans.(c)

59. The fixed-rate payer in an interest-rate swap has a position equivalent to a series of _____.

- a) long interest-puts and short interest-rate calls
- b) short interest-rate puts and long interest-rate calls
- c) long interest-rate puts and calls
- d) short interest-rate puts and calls

Ans.(b)

60. The collar of a floating-rate bond refers to the minimum and maximum _____.

- a) call periods.
- b) maturity dates.
- c) coupon rates
- d) yields to maturity

Ans.(c)

61 A perpetual bond does not have a fixed _____.

- a) interest rates

- b) maturity period
- c) duration
- d) underlying assets

Ans.(b)

62. Which principle refers to the concept that an investor will not invest in an asset if a more attractive substitute exists?

- a) Principle of alternative
- b) Principle of expectation
- c) Principle of substitution
- d) Principle of risk and return

Ans.(c)

63. Which of the following is an assumption on the returns distribution in Black Scholes Model?

- a) Normal
- b) Exponential
- c) Standard
- d) Linear

Ans.(a)

64. The first step in the Monte Carlo simulation process is to _____.

- a) generate random numbers.
- b) set up cumulative probability distributions.
- c) establish random number intervals
- d) set up probability distributions.

Ans.(d)

65. Individuals hold their claims on real assets through _____ in a well-developed economy.

- a) intangible assets
- b) tangible assets
- c) real estate
- d) financial assets

Ans.(d)

66. The credit default spread method of valuation of a guarantee given by a parent company on behalf of its subsidiary involves estimating the value _____.

- a) using credit default spread based on the credit rating of the subsidiary
- b) using credit default spread based on the credit rating of the guarantor
- c) based on probability of default
- d) of the guarantee using an option pricing model

Ans.(a)

67. What are intangible assets?

- a) Non-monetary assets with physical substance
- b) Monetary assets without physical substance
- c) Non-monetary assets without physical substance
- d) Monetary assets with physical substance

Ans.(c)

68. Relief-from-royalty method estimates the value an asset based on the value of the royalty payments _____.

- a) from which the company is relieved due to its ownership of the asset
- b) made by the company to acquire ownership of the asset
- c) received by the company from the useful life of the asset
- d) over and above the internal rate of return

Ans.(a)

69. If the aggregate fair market value of prescribed movable property received by a taxpayer as gift during the year is Rs.1,50,000, tax will be charged on _____.

- a) Rs.1,00,000
- b) b) Rs.50,000
- c) c) Rs.1,50,000
- d) d) Rs.0

Ans.(c)

70. Which of the following method, would you consider appropriate while valuing the intangible assets?

- a) Multiple
- b) Relative
- c) Consistent
- d) Exclusive

Ans.(b)

71. During a Mergers and Acquisitions (M&A) transaction, the ability to find and use good comparable data for a valuation is relatively _____.

- a) easy because each successful company within an industry uses the same ratios
- b) easy because public stock price fluctuation is not sufficient or erratic enough to make a difference
- c) difficult because book value is adjusted in small companies as FIFO (first-in first-out) is the method of choice and in public companies' book value is static due to LIFO (last-in-first out method)
- d) difficult because size differential, management depth product diversity and access to lines of credit will seldom match the company you are valuing

Ans.(d)

72. One is entitled to initiate insolvency resolution of a corporate debtor when the corporate debtor _____.

- a) does not have enough liquid cash to continue operations as a going concern
- b) has failed to repay a debt when due and payable
- c) has ceased to be a going concern
- d) has negative net worth

Ans.(b)

73. XYZ company has 50 lakh shares outstanding and plans to raise Rs.20 lakh by offering 10 lakh shares at Rs.2 per share. What is XYZ's post-money valuation?

- a) Rs. 1.2 crore
- b) Rs. 1 crore
- c) Rs. 50 lakh
- d) Rs. 2 crore

Ans.(a)

74. 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

Ans.(a)

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

- a) fair
- b) book
- c) market
- d) use

Ans.(a)

76. The decline in the combined ratio is most likely to indicate that the insurer has _____.

- a) increased its administration expenses.
- b) increased its long-term borrowing.
- c) improved its investment returns.
- d) improved its underwriting results.

Ans.(d)

77. Measurement and disclosure do not apply to which of the following?

- a) Leasing based transactions
- b) Net realizable values/Impairment of Assets
- c) Share based payments
- d) Price received to sell or buy an asset

Ans.(d)

78. Which of the following statement is true?

- a) Debenture holder is an owner of the company
- b) Debenture holder can get back its money only on the liquidation of the company
- c) A debenture issued at a discount can be redeemed at a premium
- d) A debenture holder receives interest only in the event of profits

Ans.(c)

79. A Tribunal makes an order under section 230 of the Companies Act, 2013 sanctioning a compromise or an arrangement in respect of a company. In this context, strike the odd one out:

- a) It will supervise the implementation
- b) It can give order for winding up of the company
- c) It can modify the order or compromise

d) It can ask for creditors responsibility statement

Ans.(d)

80. Which among the following is the act of taking on a risk for a fee?

- e) Guidewire
- f) Initial Public Offering
- g) Predictive analytics
- h) Underwriting

Ans.(d)

81. Under SEBI (Share based Employee Benefits) Regulation, 2014, appreciation means s the difference between the _____.

- a) the market price of the share of a company on the date of exercise of stock appreciation right (SAR) or vesting of SAR, as the case may be, and the SAR price.
- b) the face value of the share of a company on the date of exercise of stock appreciation right (SAR) or vesting of SAR, as the case may be, and the SAR price.
- c) the market price of the share of a company on the date of exercise of share appreciation right (SAR) or vesting of SAR, as the case may be, and the SAR price.
- d) the face value of the share of a company on the date of exercise of share appreciation right (SAR) or vesting of SAR, as the case may be, and the SAR price.

Ans.(a)

82. Which statute governs external commercial borrowing?

- a) Foreign Exchange Maximization Act, 1972
- b) Foreign Exchange Management Act, 1999
- c) Foreign Exchange Minimization Act, 2004
- d) Foreign Exchange Regulation Act, 1972

Ans.(b)

83. STRIPS stands for _____.

- a) Separate Trading of Registered Interest and Principal Shares
- b) Segregated Trading of Registered Interest and Principal Securities
- c) Separate Trading of Registered Interest and Principal Securities
- d) Segregated Trading of Registered Interest and Principal Shares

Ans.(c)

84. According to RBI Guidelines on Sale of Stressed Assets by Banks, identification of

stressed assets beyond a specified value, as may be determined by bank's policy, for sale is _____.

- a) top - down
- b) bottom – top
- c) horizontal
- d) vertical

Ans.(a)

85. Under the SARFAESI Act, 2002, the Central Registrar may allow the filing of the particulars of creation of security interest within _____ next following the expiry of the period of initial thirty days on payment of additional fee

- a) ten days
- b) thirty days
- c) twenty-five days
- d) fifteen days

Ans.(b)

86. The exemption under section 54 of the Income Tax Act, 1961 is available _____.

- a) to the extent of capital gain invested in the House property
- b) proportionate to the net consideration price invested
- c) to the extent of amount actually invested
- d) to the extent of net consideration

Ans.(a)

Attempt Questions 87-89 based upon the following case study:

AZ Ltd. is considering to acquire BC Ltd. for the expansion of business operation. It is considering 'income approach' for the valuation of the business of BC Ltd. In income approach of business valuation, a business is valued at the present value of its future earnings or cash flows. Future earnings/cash flows are determined by projecting the business's earnings/cash flows and adjusting them for changes in growth rate, cost structure and taxes, etc. The present value is determined using a discount rate which reflects the required rate of return of the investor. The businesses of AZ Ltd. and BC Ltd are valued at Rs.100 crore and Rs.25 crore respectively. The growth rate of BC Ltd. is 8% and of AZ Ltd. is 16%. The required rate of returns of AZ Ltd. and BC Ltd. are 18% and 12% respectively. PATs of the

AZ Ltd. and BC Ltd. are Rs.1000 crore and Rs.450 crore respectively. (d = Discount rate, g = Growth rate)

87. What is the annual future earnings of the AZ Ltd. using 'Capitalization of Earning Method'?

- a) Rs.150 crore
- b) Rs.180 crore
- c) Rs.200 crore
- d) Rs.190 crore

Ans.(c)

88. Which of the following is the capitalization rate of the BC Ltd.?

- a) 5.0%
- b) 3 %
- c) 4%
- d) 4.5%

Ans.(c)

89. There are two income-based approaches that are primarily used when valuing a business, the Capitalization of Cash Flow Method and the _____.

- a) net present value method
- b) irr method
- c) discounted cash flow method
- d) discounted payback period

Ans.(c)

Attempt Questions 90-93 based upon the following case study:

Mr. Dev, a research analyst, has been hired to value RC Ltd., a company that is currently experiencing rapid growth and expansion. Dev is an expert in the communications industry and has had extensive experience in valuing similar firms. He is convinced that a value for the equity of RC Ltd. can be reliably obtained through the use of a three-stage free cash flow to equity (FCFE) model with declining growth in the second stage. Based on up-to-date financial statements, he has determined that the current FCFE per share is Rs.1.00. He has prepared a forecast of expected growth rates in FCFE as follows:

Stage 1: 8% for years 1 through 3

Stage 2: 7.0% in year 4, 6.5% in year 5, 6.0% in year 6

Stage 3: 4.0% in year 7 and thereafter

Moreover, Dev has determined that the company has a beta of 1.6. The current risk-free rate is 3.0%, and the equity risk premium is 5.0%.

Other financial information:

Outstanding shares: 100 lakh shares

Tax rate: 40.0%

Interest expense: Rs.30,00,000

90. The required rate of return is closest to _____.

- a) 10.012%
- b) 7.062%
- c) 0.062%
- d) 11.065%

Ans.(c)

91. The terminal value in year 6 is closest to _____.

- a) Rs.22.57
- b) Rs.20.42
- c) Rs.24.30
- d) Rs.25.70

Ans.(a)

92. The per share value Dev should assign to RC Ltd. is closest to _____.

- a) Rs.15.35
- b) Rs.20.86
- c) Rs.17.35
- d) Rs.18.46

Ans.(c)

93. The free cash flow to the firm (FCFF) is closest to _____.

- a) Rs.130 lakh
- b) Rs.112 lakh
- c) Rs.118 lakh
- d) Rs.124 lakh

Ans.(c)
