## Business valuations

Business

## ASSIGN BUSTER

Q1. Which of the following is the correct formula for Market Capitalization?
(MCQ)Previous share price $\times$ Number of issued sharesCurrent share price $\times$ Number of issued sharesPrevious share price $\times$ Number of issued preference sharesCurrent share price $\times$ Number of issued convertible shares( 2 marks)

Q2. Statements given below relate to asset-based valuation for equity. Select appropriate types of asset-based valuation.
(HA)Historic Cost Values are easily available BOOK VALUE NET REALISABLE VALUE REPLACEMENT BASISMaximum Cost to be paid for assets by a buyer BOOK VALUE NET REALISABLE VALUE REPLACEMENT BASISAsset Stripping BOOK VALUE NET REALISABLE VALUE REPLACEMENT BASIS(2 marks)

Q3. Given below is summary of Vento Co.'s balance sheet:

Assets \$m Financed by \$mNon-current assets 8 \$1 Ordinary shares 1Netcurrent assets 4 Reserves 6- - Loan notes 5Total 12 12Non-current assets include Bulldozer which cost $\$ 7 \mathrm{~m}$ when it was purchased five years ago when it had a useful life of ten years. The company's depreciation policy is on a straight-line basis. These assets were valued $\$ 2 \mathrm{~m}$ by a professional.

What is the value per share using NRV basis? (MCQ) \$5\$5. 25\$5. 5\$5. 75(2 marks)

Q4. Following statements relate to asset-based valuation. (HA) It ignores intangible assets DRAWBACK USEFULNESSIt ignores cash flows from the assets DRAWBACK USEFULNESSTo set a minimum price in an event of a takeover DRAWBACK USEFULNESS(2 marks)

Q5. A Target company's dividend per share is $\$ 0.3 /$ share ; its competitor has a dividend yield of $8 \%$. Calculate the target company's share price? (FIB)4114804699000\$ (2 marks)

Q6. Dosed Co has an earnings yield of $17 \%$. Calculate the value of the Dosed Co. based on the present value of the expected earnings? Using the following information given below: (MCQ)Year 123 4Earnings (\$m) 3.43.94.14. 5\$26. $47 \mathrm{~m} \$ 45.9 \mathrm{~m} \$ 62.5 \mathrm{~m} \$ 68.625 \mathrm{~m}$ (2 marks)

Q7. Cato Co. has been open for bidding and it currently has earnings of \$3. 5 m and has 1 million shares in issue \& Cato Co. has a current share price of \$11 in the market. Calculate the earnings yield of Xerox Co, a business in the same industry sector? (MCQ)3. 5\%11\%31. 8\%35. 3\%(2 marks)

Q8. VV Co. has price/earnings ratio of 15 and it's industry competitor Kato Co. has an earnings yield of $20 \%$. If assumed, a share price of $\$ 1$. When comparing VV Co. to Kato Co, which of the following is correct? (HA)Earnings Yield HIGHER LOWERPrice/Earnings Ratio HIGHER LOWER(2 marks)

Q9. Ivo Co has made an offer to buy two of its every three shares of Rico Co. Due to this merger, there is a chance that earning after deduction of tax will increase by $\$ 10 \mathrm{~m}$ per year. Assuming that Ivo Co share price increases by $\$ 0.5$ after its merger and Ivo issues new shares as consideration. What will be the price/earnings ratio of the group using the following information to nearest two decimal places? (FIB)Ivo Co. Rico Co. Profit after Tax $\$ 150$ \$40Market Share Prices $\$ 2.5$ \$1. 2Number of shares 200 m 60m901702476500(2 marks)

Q10. Which TWO of the following are the problems relating to Price/ Earnings ratio? (MRQ)Quoted companies with similar business activities are difficult to findNot applicable for those who do not prefer paying dividends Represents historical costListed company's capital structure might differ from unlisted company's(2 marks)

Q11. Yugo Co is acquiring Lotto Co. Yugo Co cost of acquisition at the time of acquiring Lotto Co.'s 20, 000 shares will be $\$ 400,000$. The cash flows are as follows: Year 20X3 20X4 20X5 20X6Cash flow (\$) 170, 000 235, 000 200, 000 85,000 The weighted average cost of capital for the company is $10 \%$. Calculate the share price of Lotto Co using discounted cash flow? (MCQ)\$7. 5\$7. 84\$8. 20\$8. 61(2 marks)

Q12. Hath Co. has a future dividend forecast: In the current year and the first year, there will be no dividend paid. In year two a dividend of $\$ 0.36 /$ share will be paid. In year three a dividend of $\$ 0.75 /$ share will be paid and it will grow at $2 \%$ every year. If the cost of equity is $8 \%$ what will be Hath Co. current share price to the nearest \$? (FIB)3613152286000\$ (2 marks)

Q13. Bitola Co is financed using equity only. The company has just paid the dividend of $\$ 80 \mathrm{~m}$ and the earnings retained and invested were $55 \%$. The investment returns $27 \%$ and cost of equity is $18 \%$. What is the market value of the company? (MCQ)\$2, 917m\$3, 023m\$3, 487m\$3, 716m(2 marks)

Q14. Dividend growth model takes many assumptions into account. Select the assumptions from the given statements? (MRQ)The estimates of future dividends and the cost of capital are accurateAll investors are homogenous

Influential factors of the market are incorporated in the share price The dividend grow constantly or not grow at all (2 marks)

Q15. Which of the following statements is a disadvantage for dividend growth model? (MCQ)The growth rate in the market is equal to the growth used in dividend growth model The cost of equity used is an estimate of a capital asset pricing modelThe method is applicable to all companies even if they don't provide dividendsThe dividends paid by the company are perpetual (2 marks)

Q16. A firm has an issue $15 \%$ preference shares with a nominal value of $\$ 1$ each. Currently, the required return of preference shareholders is $25 \%$. The corporation tax is $30 \%$. What is the value of a preference share?
(FIB)3714753873500P0 (2 marks)144653070104000

Q17. Jorum Co has issued irredeemable loan notes with a coupon rate of $8 \%$. If the required return of investors is $2 \%$, what is the current market value of the debt? (FIB)Market Value (\$) (2 marks)

Q18. B4U Co. has $11 \%$ redeemable bonds in issue having a cost of debt of $16 \%$ before tax. The tax rate in the market is $27 \%$. If the bonds are redeemed in six years' time at a premium of $6 \%$ above the par value. Calculate the market value of the bond? (MCQ)\$69. 35\$76. 12\$84\$103. 2(2 marks)

Q19. Curry has in issue $12 \%$ bonds with total nominal value $\$ 100,000$ and a total redemption value $\$ 90,000$, with interest payable quarterly. The cost of debt on the bonds is $12 \%$ annually. The bonds are redeemable on 31st

March 20X2 and it is now 31st December 20X0. Calculate the market value? (FIB)14770102159000Market Value (\$) (2 marks)

Q20. A 6\% redeemable loan note in Voltage Co is due to mature in four years' time at a premium of $10 \%$. It can be converted into 15 ordinary shares at the same time. Voltage Co pays a tax rate of $25 \%$. Its current share price is $\$ 4.65$ and growth is expected at $8 \%$. If the shareholders require $10 \%$ return what is the market value? (MCQ)\$51\$75. 13\$94. 15\$110(2 marks)

