

Series of Model Test Papers

For

Valuation Examination for Asset Class- Securities or Financial Assets

by



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MODEL TEST PAPER - 1

Instructions:

1. The examination is conducted with objective multiple-choice questions;
2. The duration of the examination is 2 hours;
3. All questions are required to be answered
4. A wrong answer attracts a negative mark of 25% of the marks assigned for the question;
5. Candidate needs to secure 60% of marks for passing;
6. Candidate may use a non-memory based calculator. No mobile phone is allowed.
7. Candidate is issued a temporary mark sheet on submission of answer paper;
8. No workbook or study material is allowed or provided.

1. _____ is the total value of a country's final output of all new goods and services produced during the year.
- Gross domestic product
 - Gross national product
 - National income
 - Gross national income

Ans. C. National income.

2. Which of the following statements is true with regards to fiscal policy?
- It relates to the management of money supply in the economy.
 - It relates to government spending levels and revenue, specially taxes.
 - It is formulated by the Central Bank.
 - It can be changed frequently.

Ans. B. It relates to government spending levels and revenue, specially taxes.

3. Who formulates the monetary policy?
- The Central government
 - The Central Bank
 - Both a. and b.
 - The local governing bodies

Ans. B. The Central Bank

4. Which of the following is not a characteristic of the business cycle?
- There are periodic fluctuations of employment, income and output.
 - Growth rate remains constant.
 - The business cycle is completed when the economy goes through a single boom and single contraction in sequence.
 - All of the above.

Ans. B. Growth rate remains constant.

5. Which of the following is NOT a cash outflow for the firm?
- depreciation.
 - dividends.

- c. interest payments.
- d. taxes.

Answer: a

- 6.** Quick assets do not include
- a. Government bonds
 - b. Book debts
 - c. Advance for supply of raw materials
 - d. Inventories

Answer: d

- 7.** DU PONT Analysis deals with:
- a. Analysis of Current Assets
 - b. Analysis of Profit
 - c. Capital Budgeting
 - d. Analysis of Fixed Assets

Answer: b

- 8.** Maintaining professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on up to date developments in practice, legislation and techniques is _____
- a. Professional competence and due care
 - b. Objectivity
 - c. Confidentiality
 - d. Professional behaviour

Ans. A. Professional competence and due care

- 9.** Purpose of valuation shall be identified in the scope of work, so that,
- a. The valuation advice is not used out of context
 - b. Helps determine the bases of value to be used.
 - c. Both a. and b.
 - d. None of the above.

Ans. C. both a. and b.

- 10.** A valuer shall not use or divulge to other clients or any other party any confidential information about the _____ company.
- a. Subject

- b. Client
- c. Public
- d. Unlisted

Ans. A. Subject

11. Ethics remain the same through different cultures and at various points in time.

Is the statement correct.

- a. Yes.
- b. No. Ethics vary with varying cultures.
- c. No. Ethics may remain same in a particular culture at a particular point in time, but they keep changing over different cultures and with passage of time.
- d. No. Ethics are the same across cultures, but they do change with the passage of time.

Ans. C. No. Ethics may remain same in a particular culture at a particular point in time, but they keep changing over different cultures and with passage of time.

12. _____ is a formal statement that acts as a guide for the ethics of how people within a particular organisation should act and make decisions.

- a. Code of ethics
- b. Agreement of employment
- c. Agreement for professional engagement
- d. None of the above.

Ans. A. Code of ethics.

13. _____ describes the accounting principles, the valuation technique, and the method of applying the principles of accountancy in preparation and presentation of financial position in the most appropriate manner.

- a. Accounting standards
- b. Standards on business valuation
- c. Auditing standards
- d. All of the above.

Ans. A. Accounting standards.

14. Which of the following is not a characteristic of Level I enterprise, as per the classification for the purpose of applicability of the accounting standards?

- a. Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
- b. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of one crore but not in excess of Rs. 10 crores at any time during the accounting period.

- c. Holding and subsidiary enterprises of any one of the above at any time during the accounting period.
- d. None of the above.

Ans. B. All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of one crore but not in excess of Rs. 10 crores at any time during the accounting period.

15. Which of the following is not a characteristic of “small and medium sized company (SMC) as per the Companies (Accounting Standards) Amendment Rules, 2016?

- a. which is not a holding or subsidiary company of a company which is not a small and medium-sized company.
- b. which is not a bank, financial institution or an insurance company;
- c. whose equity or debt securities are listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- d. which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year

Ans. C. whose equity or debt securities are listed or are not in the process of listing on any stock exchange, whether in India or outside India;

16. The IBBI has granted recognition to _____ Registered Valuers Organisation.

- a. One
- b. Two
- c. Three
- d. Four

Ans. C. three

17. Can an organisation set up as a Trust governed by Indian Trust Act, 1882, be registered as a registered valuer organisation?

- a. Yes, after it converts itself to a company registered u/s 8 of the Companies Act, 2013 and makes necessary changes in its byelaws within specified time period.
- b. No, an organisation set up as a trust cannot be registered as a registered valuer.
- c. Yes, after it converts itself to a company registered u/s 8 of the Companies Act, 2013
- d. None of the above.

Ans. A. Yes, after it converts itself to a company registered u/s 8 of the Companies Act, 2013 and makes necessary changes in its byelaws within specified time period.

18. Who amongst the following is eligible to be registered as the registered valuer as per the Companies (Registered valuer and valuation) rules, 2017?

- a. Has passed the valuation examination under rule 5 within two years preceding the date of making an application for registration under rule 6.
- b. Possesses qualifications and experience as specified in rule 4.
- c. He is a minor.
- d. Both a. and b.

Ans. B. possesses qualifications and experience as specified in rule 4.

19. Which of the following is a void contract?

- a. An agreement caused by a mistake as to any law in force in India.
- b. An agreement caused by one of the parties to it being under a mistake as to a matter of fact.
- c. An agreement of which the object or consideration is unlawful.
- d. All of the above.

Ans. C. an agreement of which the object or consideration is unlawful.

20. The contract of guarantee is a contract in which a person perform the promise or discharge a liability of

- a. The contractor
- b. A stranger
- c. Third party
- d. Any of the above.

Ans. C. third party

21. A contract by which one party promises to save the other from loss caused to him by the contract of the promisor himself, or by the conduct of any other person, is called a

- a. Contract of Indemnity
- b. Contact of Bailment
- c. Contingent Contract
- d. Contract of Gaurantee

Ans. A. Contract of Indemnity

22. Do the seller has the right to sue the buyer for the non-acceptance of the delivery

- a. Yes
- b. No
- c. Only in case he refuses to take goods
- d. As per the Agreement between them

Answer: A. Section 56 states that Where the buyer wrongfully neglects or refuses to accept and pay for the goods, the seller may sue him for damages for non-acceptance.

23. In case of auction sale, if the seller makes pretended bidding then what will be the effect of such pretended bidding

- a. No effect, the sale will be normal sale
- b. Sale is void
- c. Sale is voidable at the option of the buyer
- d. None of the above

Answer: C. Section 64

24. A stipulation which is necessary for the main purpose of the contract is a

- a. Condition
- b. Warranty
- c. Lien
- d. Damages

Answer: A. As defined under Section 12.

25. The provisions relating to the actionable claims are not applicable to:

- a. Stocks
- b. Shares or debentures
- c. Negotiable Instruments
- d. All of the above

Ans.: D. Section 137.

26. When did the transfer of Property Act, 1882 came into force?

- a. 1st July, 1882
- b. 1st June, 1882
- c. 1st July, 1892
- d. 15th July, 1982

Ans.: A.

27. Centre and State Governments can make laws relating to the Transfer of Property under list _____ of the Seventh Schedule to the Constitution.

- a. I
- b. II
- c. III
- d. IV

Ans.: C.

28. Any mark, seal or endorsement by any agency or person duly authorised by the State Government, for the purpose of duty chargeable is called _____

- a. Bond
- b. Cheque
- c. Stamp
- d. Bill of exchange

Ans. C. stamp

29. Which of the following transactions is exempt from Stamp duty?

- a. Any instrument executed by the government, where the government would be liable to pay the duty chargeable.
- b. Every instrument mentioned in the schedule executed on or after July 1, 1899
- c. Bill of exchange payable otherwise than on demand
- d. Promissory note made out of India, presented for payment in India.

Ans. A. Any instrument executed by the government, where the government would be liable to pay the duty chargeable.

30. Certain instruments can be stamped by the use of adhesive stamps. Amongst the documents listed below, is there an odd one out?

- a. Entry as an advocate on roll in High court.
- b. Transfers by endorsement of shares in any incorporated company.
- c. Bill of exchange or promissory notes drawn or made out of India.
- d. Negotiable warehouse receipts.

Ans. D. Negotiable warehouse receipts, as they are not liable to stamp duty. (s. 8C of the Indian stamp act, 1899)

31. Performance Guarantee is also included in the definition of security interest.

- a. True
- b. False
- c. True but subject to the condition that amount involved in performance guarantee is less than amount of security interest
- d. True but subject to the condition that amount involved in performance guarantee is less than amount of security interest.

Answer is B. Refer Proviso of Section 3(31).

32. Which of the following can be understood financial information for the purpose of the Code

- a. Balance sheet of Corporate Person
- b. Profit and Loss Account of the Corporate Person
- c. Cash flow statement of the Corporate Person
- d. Records of the debt of the person

Answer is D. Refer Section 3(13) of the IBC.

33. Creditor means any person to whom a debt is owed. Person means:

- a. an individual, a Hindu Undivided Family and a trust
- b. a company, a partnership and a limited liability partnership
- c. any entity established under a statute
- d. All above

Answer is D. Refer Section 3(23) of the IBC.

34. _____ value of an asset refers to the subjective value that a person attributes to a particular product or service or asset that makes them feel good about owning it.

- a. Intrinsic value
- b. Investment value
- c. Liquidation value
- d. Esteem value

Ans. D. Esteem value

35. Which amongst the following are the common premise of value?

- a. Highest and best use
- b. Current/existing use
- c. Orderly liquidation
- d. All of the above

Ans. D. all of the above.

36. _____ describes the value of a group of assets that could be realised in a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis.

- a. Orderly liquidation
- b. Forced sale
- c. Conversion to highest and best use
- d. None of the above.

Ans. A. orderly liquidation

37. _____ is the circumstance when the seller is under compulsion to sell and a proper marketing period is not possible.

- a. Orderly liquidation
- b. Forced sale
- c. Conversion to highest and best use
- d. None of the above.

Ans. B. Forced sale

38. _____ transactions will be excluded from consideration in a valuation where the basis of value is Market Value.

- a. Orderly liquidation
- b. Forced sale
- c. Conversion to highest and best use
- d. None of the above.

Ans. B. Forced sale

39. The approaches of valuation are based on the economic principles of _____, anticipation of benefits and substitution.

- a. Price equilibrium
- b. Conformity
- c. Externalities
- d. None of the above

Ans. A. Price Equilibrium

40. Which of the following factors are considered in selecting the valuation approach?

- a. The choice of the valuer.
- b. Availability of reliable information.
- c. Strengths and weakness of each approach.
- d. Both b. and c.

Ans. D. Both b. and c.

41. When shall more than one valuation approach be used?

- a. When factual or observable inputs for a single method to produce reliable conclusion is insufficient.
- b. When the contract of valuation so requires.
- c. Both a. and b.
- d. None of the above.

Ans. C. both a. and b.

42. For the valuation of unlisted shares, which of the following will not be the appropriate approach of valuation?

- a. Market approach
- b. Income approach
- c. Cost approach
- d. iBoth a. and b.

Ans. A. Market approach, as the shares are unlisted, reliable information about its trading price will not be available.

43. When using the market approach of valuation, the price of the similar or identical instruments shall be taken to be the value of the instrument in question.

Is the statement correct.

- a. Yes. The value of the identical instruments shall be taken to be the value of the instrument to be valued.
- b. No. The market value of the identical instruments shall be appropriately adjusted and thereafter considered for valuation of the instrument in question.
- c. No. the market value of the identical instruments shall not be considered in the valuation of the instrument to be valued.
- d. None of the above.

Ans. B. No. The market value of the identical instruments shall be appropriately adjusted and thereafter considered for valuation of the instrument in question.

44. What is the purpose of analysis of business environment?

- a. It helps in understanding the level of pollution in the environment where the business is to be carried out.
- b. It is necessary to understand the permission requirements from environment authorities.
- c. It helps in understanding the current and potential changes taking place in the micro environment.
- d. None of the above.

Ans. C. it helps in understanding the current and potential changes taking place in the mirco environment.

45. Which of the following factors specifies micro environment?

- a. The type of products to be offered

- b. The technology to be adopted
- c. The productive strategies to be used to face the global competition
- d. All of the above

Ans. D. all of the above.

46. What should be the first step in the process of analysis of business environment?

- a. Scanning and searching for information
- b. Collection of necessary information
- c. Observing the environment
- d. Assessing

Ans. B. collection of necessary information.

47. Of the following, which can be termed as the concluding step in the process of analysis of business environment?

- a. Scanning and searching for information
- b. Collection of necessary information
- c. Observing the environment
- d. Assessing

Ans. D. assessing

48. Which of the following characteristics should not be possessed by a good forecasting method?

- a. Economical
- b. Easily available
- c. Plausible
- d. Complicated

Ans. D. complicated

49. What does forecasting mean?

- e. A scientific guesswork based upon serious study.
- f. Guessing the future outcomes as per whims and whence of the forecaster
- g. A random target set as per the current performances
- h. None of the above.

Ans. A. A scientific guesswork based upon serious study.

50. If no alterations are made and the same inputs as a Black-Scholes model are used, and when using a sufficient number of steps, the results of binomial model and Black Scholes model will be _____.

- a. Different
- b. Identical

- c. Greater than the other
- d. Any of the above.

Ans. B. Identical.

51. Monte Carlo simulation is based on the _____ of each variable.

- a. Normal distribution
- b. Probability distribution
- c. Binomial distribution
- d. Decision tree analysis

Ans. B. Probability distribution

52. The distressed assets can be solved in which of the following manner?

- a. Asset restructuring
- b. Financial restructuring
- c. Liquidation
- d. All of the above.

Ans. D. all of the above.

53. Most of the firms under distress do not fail and cease to exist. Many firms benefit from distress by

- a. By re evaluating the core operations that it should retain.
- b. By realigning the capital structures, so as to reduce cost.
- c. By filing for bankruptcy
- d. Both a. and b.

Ans. D. both a. and b.

54. Of the following listed investment options, select the odd one out.

- a. Bank Fixed deposit
- b. Open ended Mutual funds.
- c. Treasury bills
- d. Public Provident Fund

Ans. B. open ended mutual funds

55. Of the following, select the major difference between Fixed Maturity plans and Fixed Deposits.

- a. Guaranteed returns
- b. Fixed period investment
- c. Maturity period options
- d. All of the above.

Ans. A. Guaranteed returns

56. What is the risk-return relationship in the Fixed maturity plans?

- a. High risk-high returns
- b. High risk-low returns
- c. Low risk-low returns
- d. Low risk-high returns

Ans. C. Low risk-low returns.

57. Type of instrument whoever holds it gets the interest and principal amount is classified as

- a. bearer instrument
- b. primary instrument
- c. term instrument
- d. none of the above.

Ans. A. Bearer instrument

58. T-bills pay interest at _____

- a. coupon rate monthly
- b. coupon rate semi-annually
- c. coupon rate yearly
- d. bank rate semi-annually

59. T-bills are issued on _____

- a. Discount
- b. Face value
- c. Market value
- d. Maturity value

Ans. A. Discount

60. Which of the following is not a factor affecting option valuation?

- a. Current value of the underlying asset
- b. Strike price of the option
- c. Rate of interest
- d. None of the above.

Ans. D. None of the above.

61. With the increase in the value of the underlying asset, the value of call option _____.

- a. Increases
- b. Decreases
- c. Has no effect
- d. Increases to an extent, and decreases thereafter.

Ans. A. Increases.

62. The value of the call option decreases due to the change in which of the following factors of option valuation?

- a. Extent of volatility in value of asset
- b. Increase in strike price
- c. Increase in rate of interest
- d. Longer expiration time

Ans. B. Increase in strike price.

63. The value of put option decreases due to change in which of the following factors of option valuation?

- a. Extent of volatility in value of asset
- b. Increase in strike price
- c. Increase in rate of interest
- d. Longer expiration time

Ans. C. Increase in rate of interest

64. The value of the call option increases due to the change in which of the following factors of option valuation?

- a. Increase in value of underlying asset
- b. Extent of volatility in value of asset
- c. Longer expiration time
- d. All of the above.

Ans. D. all of the above.

65. The value of put option increases due to the change in which of the following factors of option valuation?

- a. Extent of volatility in the value of asset
- b. Increase in strike price
- c. Longer expiration time
- d. All of the above

Ans. D. all of the above.

66. Royalty agreements fall under which of the following categories of intangible assets?

- e. Market related
- f. Customer related
- g. Artistic related
- h. Contract related

Ans. D. Contract related

67. Market approach of valuation of intangible assets is appropriate for the valuation of _____.

- i. Internet domain names
- j. Tradenames
- k. Benefits arising from trained and experienced workforce.
- l. All of the above.

Ans. A. Internet Domain names.

68. Income approach of valuation of intangible assets is not appropriate for the valuation of _____

- m. Franchise agreements
- n. Non-competition agreements
- o. Trademarks
- p. Taxi medallions

Ans. D. Taxi medallions

69. Which of the following is not a method under the income approach to valuation of intangible assets?

- q. Greenfield method
- r. Comparable transaction method
- s. With-or-without method
- t. Relief from royalty method

Ans. B. comparable transaction method

70. Greenfield method of income approach of valuation of intangible assets is generally used for the valuation of _____

- u. Franchise agreements
- v. Broadband spectrum
- w. Trademarks
- x. Both a. and b.

Ans. D. both a. and b.

71. The cost approach of valuation of intangible assets is generally used in the valuation of

- a. Third party software
- b. Internally developed software
- c. Assembled workforce
- d. All of the above.

Ans. D. all of the above.

72. Which of the following factors do not affect the valuation of startups?

- a. Leverage
- b. Track record of promoters
- c. Historical performance of the company
- d. Investors willingness to invest

Ans. C. Historical performance of the company

73. Which of the following methods are used for the valuation of start-ups which are yet to generate revenues?

- a. Venture capital method
- b. Score card valuation method
- c. Risk factor summation method
- d. All of the above.

Ans. D. all of the above.

74. The average pre-money valuation of other startups in the same vertical is arrived at and this valuation is then used to value the startup that is looking for investment. Which method of valuation of the startup is used here?

- a. Scorecard valuation method
- b. Valuation by stage
- c. Discounted cashflow method
- d. The book value method

Ans. A. Scorecard valuation method.

75. The Companies Act, 2013 received the President's Assent on:

- a. 29th August, 2013
- b. 30th August, 2013
- c. 5th September, 2013
- d. 12th September, 2013

Ans.: A

76. Chapter IV of Companies Act, 2013 deals with:

- a. Incorporation of Company and Matters Incidental Thereto
- b. Prospectus and Allotment of Securities
- c. Share Capital and Debentures
- d. Acceptance of Deposits by Companies

Ans.: C

77. The shares with differential rights shall not exceed _____ of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time.

- a. Twenty percent
- b. Twenty-six percent
- c. Thirty percent
- d. Thirty-six percent

Ans.: B Section 43

78. Form No. SH-3 is prescribed for:

- a. Register of Sweat Equity Shares
- b. Securities Transfer Form
- c. Notice for transfer of partly paid securities
- d. Register of Employee Stock Options

Ans.: A

79. The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are applicable to:

- a. An entity who has listed non-convertible debt securities.
- b. An entity which has listed securitised debt instruments.
- c. An entity with listed Indian depository receipts.
- d. All of the above.

Ans. D. all of the above.

80. Where the chairperson of the Board of Directors is a non-executive director, atleast _____ of the Board of Directors shall comprise of independent directors.

- a. One-half
- b. One-third
- c. One-fourth
- d. One-eighth

Ans. B. one-third (regulation 17 of SEBI(LODR), 2015)

81. The maximum time gap between two meetings of board of directors shall be _____

- a. 60 days
- b. 90 days
- c. 120 days
- d. 150 days

Ans. C. 120 days

82. In which of the following circumstances can a Bank Receipt not be issued?

- a. In respect of transactions in Government Securities for which SGL facility is available.
- b. The scrips are yet to be issued by the issuer and the bank is holding the allotment advice.
- c. The security is physically held at a different centre and the bank is in a position to physically transfer the security and give delivery thereof within a short period.
- d. The security has been lodged for transfer/ interest payment and the bank is holding necessary records of such lodgement and will be in a position to give physical delivery of the security within a short period.

Ans. A. In respect of transactions in Government Securities for which SGL facility is available.

83. The requirement of exchange of physical confirmation of trades matched on F-TRAC is waived subject to which of the following conditions?

- a. Participants entering into one-time bilateral agreement for eliminating the exchange of confirmation
- b. Participants ensuring adherence to a sound risk management framework and complying with all the regulatory and legal requirements and practices, in this regard
- c. Either a. or b.
- d. Both a. and b.

Ans. D. both a. and b. (MC prudential norms for classification, valuation and operation of investment portfolio by Banks, para 1.1.6)

84. The guidelines relating to listing and rating pertaining to non-SLR securities is applicable to banks' investment in _____

- a. Commercial Paper
- b. Unrated bonds of companies
- c. Equity shares
- d. Certificates of deposit

Ans. B. Unrated bonds of companies (as per MC on prudential norms for classification, valuation and operation of investment portfolio by Banks para 1.2.5)

- 85.** Banks' investment in unlisted non-SLR securities should not exceed _____% of its total investment in non-SLR securities as on March 31, of the previous year.
- 1
 - 5
 - 10
 - 15

Ans. C. 10 (as per MC on prudential norms for classification, valuation and operation of investment portfolio by Banks para 1.2.9)

- 86.** The residual value of a business is
- The present value of cash flows after the end of the detailed forecast period.
 - The expected sales value of the business, less any related costs.
 - Both a. and b.
 - None of the above.

Ans. C. Both a. and b.

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

Wizard Inc. has developed a software for business, which can be termed as a one stop solution for all the business record keeping needs. It includes everything from daily employee logs to book keeping to reminders for vendor payments and order placements, with minimum human intervention.

This software is termed to be one of its kind, and at least 3 levels advance to the other software available in the market. Predictions have been made that this software will reign the markets and will be the most used software, when it will be launched.

The company had planned to launch the software under its name, after spending next 2 months in publicity and advertisements, but due to some unfavourable circumstances, it cannot mass produce the software and hence, it has decided to sell the software design and the rights of development.

Wizard Inc, has quoted Rs. 10 crores as the sale price for the design and rights of development of the software.

Wincom Ltd is the rival of Wizard Inc, and it is willing to purchase the software in question. It feels that before deciding to purchase, it should try and evaluate the probable profits that may arise in future, and for the purpose, it has appointed you as the valuer.

Answer the following questions, with regards to the above.

87. Which is the most appropriate valuation approach for this case?

- a. Income approach
- b. Cost approach
- c. Market approach
- d. Both a. and b.

Ans. **A. Income approach** is most appropriate as the asset to be valued is an intangible asset, software, which has no comparable market value and the cost of development of which is unknown to the purchaser.

88. Wincom Ltd has estimated the possible cash inflows due to the sale of the software of Wizard Inc. and it estimates that the useful life of the asset, before it needs any upgradation is 3 years. Which of the following is correct.

- e. It is appropriate to use Excess earnings method to value the asset.
- f. Premium profit method should be used
- g. Both a. and b. can be used.
- h. None of the above.

Ans. C. Both a. and b. can be used.

89. In the valuation of the software, what all factors should be considered?

- i. Future cashflows related to the software sales
- j. Probable competition from other companies.
- k. Life of the asset
- l. All of the above.

Ans. D. all of the above.

Attempt questions 90-93 based upon following case study:

Emee Ltd. is majorly involved in the business of investments in the stocks of start up companies, which are placed privately. As on 31st March, 2017, it held following stocks:

1. Avee Corp. – 510 shares purchased at Rs. 1000 each = Rs. 5,10,000
2. Banjo Ltd. – 20,000 shares purchased at Rs. 45 each = Rs. 9,00,000
3. Guitar Co. Pvt. Ltd. – 15750 shares purchased at Rs. 125 each = Rs. 19,68,750
4. Sitar Inc. – 7650 shares purchased at Rs. 190 each = Rs. 1453500
5. Tabla Ltd. – 780 shares purchased at Rs. 750 each = Rs. 5,85,000

The stocks are recorded at the purchase price. All the investments are older than 12 months. Due to changes in the tax laws, Emee Ltd. is required to find the value of all its holdings as on 31st March 2017. For the said purpose, it has appointed you as the valuer. Answer the following questions.

90. What will be the most appropriate approach of valuation?

- a. Income approach
- b. Cost approach
- c. Market approach
- d. None of the above

Ans. B. Cost approach, because since the stocks are privately placed, there is no market value available.

91. Since all the stocks are that of startups, they are not older than 3 years, and till date there has not been any dividend payments on these stocks. In the process of valuation, it is assumed that there will not be any dividend payments for two more years.

- a. The assumption of non-payment of dividend should be mentioned in the valuation report.
- b. Assumptions can be randomly made. They need not be reported.
- c. No assumptions can be made by the valuer. He must go by facts.
- d. The assumption made is communicated orally to Emee Ltd., but it need not be given in writing.

Ans. A. the assumption of non-payment of dividend should be mentioned in the valuation report.

- 92.** Banjo Ltd. has reported losses for the past two years and it is facing financial crisis. It may shut down operations and go into dissolution.
- a. This information does not affect the valuation of stocks
 - b. This is a vital information and valuation should be done at the amount recoverable instead of using other methods.
 - c. Putting a note in the valuation report regarding the financial position of the company is enough.
 - d. None of the above.

Ans. B. this is a vital information and valuation should be done at the amount recoverable instead of using other methods.

- 93.** Emee Ltd. had asked you to perform valuation for the purpose of tax laws, but since it has the report, it uses the same report to submit to the bank for the purpose of borrowing loans.
- a. Yes, it is perfectly alright for Emee Ltd. to use the report for the purpose of bank loan.
 - b. No, Emee Ltd cannot use the valuation report prepared for tax law purposes for any other purpose.
 - c. No, Emee Ltd cannot use the report for any purpose other than tax laws, as the valuer has clearly limited the scope of the report by mentioning in the report the purpose for which it was prepared.
 - d. Both a. and c.

Ans. D. Both a. and c.

Because, if the valuer has not mentioned the scope for which the report was prepared, then Emee Ltd. can use it for any purpose, whatsoever. And if the valuer mentions in the report that it cannot be used for any other purpose, then, the report can be presented only for the purpose for which it was prepared. In this case, for the purpose of tax laws.