

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2022-23)
MID TERM QUIZ EXAMINATION (TERM -IV)

Subject Name: Equity and M&A Modelling

Time: 01.00 hrs

Sub. Code: PGF53

Max Marks: 20

Note:

1. Writing anything except Roll Number on Quiz paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. There is no negative marking for wrong answer.
3. Tick marks the correct answer.

Attempt all questions. All questions are compulsory.

40×0.5 = 20 Marks

Q.1. All investor (shareholders, debtholders) invest their capital at returns: (CO1, L2)

- a) Below the cost of capital
- b) Above the cost of capital
- c) Cost of capital has impact in decision
- d) Regardless of the cost of capital

Ans: b

Q. 2. We can change one input parameter one at a time and note the impact it has on valuation. This risk management technique is known as: (CO2, L1)

- (a) Scenario Analysis
- (b) Certainty Equivalent Method
- (c) Sensitivity Analysis
- (d) None of the options is correct

Ans: c

Q. 3. Porter's five forces include: (CO2, L1)

- (a) Threat of New Entrants
- (b) Threat of substitutes
- (c) Rivalry among competitors
- (d) All the options are correct

Ans: d

Q. 4. A _____ typically requires modelling complicated debt schedules and is an advanced form of financial modelling.: (CO4, L2)

- (a) Leveraged buyout transaction
- (b) Initial Public Offering
- (c) Option Modelling
- (d) None of the options is correct

Ans: a

Q. 5. Clearly separating the assumptions or drivers from the rest of the model is not a good practice
(CO1, L1)

- (a) True
- (b) False

Ans: b

Q. 6. You want to highlight all the formulas used in your model. Which of the following tools in Excel can be used to color the text of the cell where formulas are written? (CO1, L3)

- (a) Paste Special and then select Formulas
- (b) Go to, then select Special and then select Formulas
- (c) Data Validation and then select Formulas
- (d) Goal Seek and then select Formulas

Ans: b

Q. 7. Which of the following sections is/are available in the annual report of a company?
(CO2, L1)

- (a) Management Discussion
- (b) Notes to Financial Statements
- (c) Audit Report
- (d) All the options are correct

Ans: d

Q. 8. In general text of the cell containing formulas is colored using which color? (CO1, L1)

- (a) Blue
- (b) Green
- (c) Black
- (d) Red

Ans: c

Q. 9. If you wish to convert financial data from \$ to Rs by multiplying \$ values with the exchange rate. Which of the tools in Excel will you use? (CO1, L3)

- a) Text to Column
- b) Conditional Formatting
- c) Paste Special
- d) Data Validation

Ans: c

Q. 10. Which of the following statements is true? (CO3, L2)

- (a) Discount rate is WACC if FCFF cash flows are used
- (b) Discount rate is WACC if FCFE cash flows are used
- (c) Discount Rate is cost of debt if dividends are used as cash flows

(d) All the options are correct

Ans: a

Q. 11. EPS Accretion and Dilution Analysis model is the core model used by investment banking advisors for _____ M&A. (CO4, L1)

- (a) Buy Side
- (b) Sell Side
- (c) Both Buy and Sell Side
- (d) None of the options are correct

Ans: a

Q. 12. As a simple approach historical trends can be used to forecast capital expenditure by taking it as a _____ (CO2, L2)

- (a) Percentage of total assets.
- (b) Percentage of sales.
- (c) Percentage of liabilities
- (d) None of the options are correct

Ans: b

Q. 13. EIC approach is also known as: (CO2, L1)

- (a) Bottom-Up Approach
- (b) Hybrid Approach
- (c) Top-Down Approach
- (d) None of the options is correct

Ans: c

Q. 14. If Gross Profit Margin is 62%, Revenue is Rs 2500000. What will be the COGS? (CO2, L3)

- (a) 15,50,000
- (b) 9,50,000
- (c) 2500000
- (d) 7500000

Ans: b

Q. 15. The values from PP&E Schedule flows to: (CO2, L2)

- (a) Balance Sheet
- (b) Income Statement
- (c) Cash Flow Statement
- (d) All the options are correct

Ans: d

Q. 16. Capital Assets Turnover Ratio is: (CO2, L1)

- (a) Sales/ PPE
- (b) PPE/Sales
- (c) Sales/Receivables
- (d) None of the options is correct

Ans: a

Q. 17. If Account Receivables increases this year compared to last year, what impact it will have on the financing cash flow: **(CO2, L2)**

- (a) Positive
- (b) Negative
- (c) Can be positive or negative
- (d) No impact

Ans: d

Q. 18. To calculate PPE ending the equation is: **(CO2, L2)**

- (a) $PP\&E \text{ (Ending)} = PP\&E \text{ (Beginning)} - \text{Capex} + \text{Depreciation}$
- (b) $PP\&E \text{ (Ending)} = PP\&E \text{ (Beginning)} - \text{Capex} - \text{Depreciation}$
- (c) $PP\&E \text{ (Ending)} = PP\&E \text{ (Beginning)} + \text{Capex} - \text{Depreciation}$
- (d) None of the options is correct

Ans: c

Q. 19. Forecasting Techniques includes **(CO2, L1)**

- (a) Reference to top line approach
- (b) Trend analysis using yearly growth rate technique
- (c) Both reference to top line and trend analysis using yearly growth techniques
- (d) Golden Parachute

Ans: c

Q. 20. If you wish to perform scenario analysis using Excel, which of the following can be used: **(CO2, L2)**

- (a) What if Analysis - Scenario Manager
- (b) Scenario Analysis can be done using Formulas
- (c) Both the options can be used
- (d) None of the options is correct

Ans: c

Q. 21. Account Payable Days = $(\text{Account Payables} / \text{Cost of Sales}) * 365$ **(CO2, L1)**

- (a) True
- (b) False

Ans: a

Q. 22. If the company repays financing, the cash on the balance sheet will: **(CO2, L1)**

- (a) Go down
- (b) Go Up
- (c) No Impact
- (d) All are possible

Ans: a

Q. 23. It is important to test, protect, document and update the model (as per requirement) (CO2, L1)

- (a) True
- (b) False

Ans: a

Q. 24. Supporting Schedules helps in: (CO2, L2)

- (a) Making good assumptions
- (b) Evaluating the discount rate
- (c) Breaking down long calculations
- (d) None of the options is correct

Ans: c

Q. 25. We can create a dropdown list for selection by using: (CO1, L1)

- (a) Text to Column
- (b) Paste Special
- (c) Data Validation
- (d) None of the options is correct

Ans: c

Q. 26. I have written a formula as =B5*C\$5 in cell D5. I copy the formula from D5 and paste it in cell D10. What will be the new formula in cell D10? (CO1, L2)

- (a) =B10*C10
- (b) =B10*C\$5
- (c) =B10*C\$10
- (d) =B10*\$C5

Ans: b

Q. 27. The target wants the exchange ratio to be _____, and the acquirer wants it to be _____ (CO4, L2)

- (a) minimum, maximum
- (b) maximum, minimum
- (c) minimum, minimum
- (d) maximum, maximum

Ans: b

Q. 28. Which of the following are price multiples? (CO3, L1)

- a) P/E Multiple
- b) P/B Multiple
- c) P/EBIT Multiple
- d) All of the above

Ans: d

Q. 29. The surplus cash generated by the company after depreciation, taxes, and other investment, that is available to all debtholders and shareholders is **(CO3, L2)**

- a) Free cash flow to the firm
- b) Free cash flow to equity
- c) Free cash flow to debt
- d) Both A & C

Ans: a

Q. 30. What Is the condition of Dilution? **(CO4, L2)**

- (a) When combined EPS= acquirer's EPS
- (b) When combined EPS<acquirer's EPS
- (c) When combined EPS>acquirer's EPS
- (d) None of the Above

Ans: b

Q. 31. If the mode of payment in acquisition is cash, then an exchange ratio will have to be determined **(CO4, L2)**

- (a). True
- (b). False

Ans: b

Q. 32. What best defines DCF valuation? **(CO3, L2)**

- a) Evaluates the projected cashflow using discount rates
- b) Evaluates the EBITA
- c) Involves various multiples
- d) All of the Above

Ans: a

Q. 33. . If an investor invests Rs. 50,00,000 in a start-up firm and gets 20% stake. What is the pre-money valuations of the firm? **(CO3, L3)**

- a) 50,00,000
- b) 2,00,00,000
- c) 1,50,00,000
- d) 2,50,00,000

Ans: d

Q. 34. Relative valuation uses which of the following ratios? **(CO3, L1)**

- a) EV/Sales
- b) EV/EBITDA

- c) P/E ratio
- d) All of the above

Ans: d

Q. 35. If the risk-free rate is 6% and market return is 16% with a beta factor of 1.5, then the expected return of a security is **(CO3, L3)**

- (a) 18.5%
- (b) 21.0%
- (c) 18.0%
- (d) 19.0%

Ans: b

Q. 36. Calculation of valuation by using the Two-Stage Model: **(CO3, L2)**

- a) Present value of FCFF in high growth phase and stable growth phase
- b) Present value of FCFF in high growth phase and low growth phase
- c) Present value of FCFF in high growth phase
- d) Present value of FCFF in and stable growth phase

Ans: a

Q. 37. Johnson believes that AAA is expected to grow at a higher rate of 20 per cent for the next four years and then grow at a rate of 7 per cent after that. The current EPS is \$2.50, retention ratio is 0.40 and cost of equity is 12.4%. Using the two-stage model, the current value of AAA is closest to: **(CO3, L3)**

- (a) \$45.69
- (b) \$58.00
- (c) \$61.62
- (d) \$63.75

Ans: a

Q. 38. An industry with high barriers to entry and weak pricing power most likely has: **(CO2, L2)**

- a) High barriers to exit.
- b) Stable market shares.
- c) Significant numbers of issued patents.
- d) All the above

Ans: a

Q. 39. The life cycle stage in which industry leaders are likely to emerge is the: **(CO2, L1)**

- a) start-up stage.
- b) maturity stage.
- c) growth stage
- d) relative decline stage

Ans: c

Q. 40. In this stage the companies are improving their products and perhaps lowering their prices hence they witness significant growth in their sales and profits. **(CO2, L2)**

- a) Embryonic Stage
- b) Expansion Stage
- c) Decline Stage
- d) Mature Stage

Ans: b