BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI - K. K. BIRLA GOA CAMPUS
First Semester 2022-23, Mid-Semester Examination November, 2022
BUSINESS ANALYSIS AND VALUATION (ECON F355)

(Answer all questions)

Date: 01/11/2022 **Time: 90 Minutes** **Total Marks: 35**

1. Each question carries 1 mark. (1*8 = 8 Marks)
   a. A firm with an average return on assets, but a high return on equity was probably able to achieve this by keeping debt down to a very low level. (True/False)
   b. -------------are those resources, skills and attributes of the organisations in the industry that are essential to deliver success in the industry.
   c. The statement of an organization's aspirations can be found in the organization's ---------------- Statement.
   d. Strategy formulation takes places at two levels. These are ---------- and -----------------.
   e. Analyst can reduce the accounting distortion by using the –------------ and ---------------.
   f. Performing the ---------- is of crucial importance for effective strategic decision making to minimize the chance of making wrong decisions.
   g. A company belongs to the --------------- position of SPACE matrix should protect product competitiveness and think of penetrating the more attractive industry.
   h. The --------------section of the annual report provides an opportunity to help analysts understand the reasons behind a firm's performance changes.
2. A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Explain this line by using the case of Amazon, Amul, ITC, Coca cola and Walmart. (Marks 5)
3. SwipeWire reported in its 2021 annual report, that the opening and closing balances in Allowance for Uncollectible (a contra against receivables) were $1,656 million and $ 2010 million, respectively, and that customers owing $850 million defaulted during the year. The company's tax rate is 40 percent. If 40 percent of the ending account receivable ($1550 million) is deemed to be unrecoverable, how would the transaction be recorded? In addition, Swipe Wire has done channel stuffing of products worth of $186.87 million into wholesalers' warehouse from 2019 through 2021. The company's sales and cost of sales for 2021 are $78,456 and $54,424 million, respectively. Moreover, due to the impairment of goods during this period, leading to an increase in day's inventory from 130 days for the quarter ending September 30, 2019 to 177 days for the

quarter ending March 2021. Inventory at the end of March 2021 was valued at $2,089 million. This increase raises questions for analysts about SwipeWire's inventory value and potential obsolescence. How much excess inventory do you estimate SwipeWire is holding in March 2021 if the firm's optimal days' Inventory is 130 days? Calculate the inventory impairment charge for SwipeWire if 65 percent of this excess inventory is deemed to be worthless. Record the changes to SwipeWire's <u>same financial statements</u> of 2021. (Marks 7)

4. Nanda Tech Solutions expenses its R&D costs for tax purposes. What adjustment would be required if the analyst decided to capitalize Nanda's R&D expenses and to amortize the intangible asset using the straight-line method over the five years of expected life of R&D asset? Assume that R&D spending occurs evenly throughout the year and that only half a year's amortization is taken on the latest year's spending. R&D outlays are:

2017	2018	2019	2020	2021	2022
135	167	198	210	224	253

Given R&D outlays for the years 2017 to 2022, estimate the R&D asset and R&D amortization expenses at the end of the 2022 fiscal year (06/30/22). Given a marginal tax rate of 35%, record the adjustment required in the financial statements. (Marks 5)

5. ABL Pvt. Ltd. leases various types of equipment and property, primarily heavy machine & equipment. The future minimum lease payment required under operating leases for the year ending December 31 are as follows (in millions):

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
1545	1334	1201	1187	1156	1120	1089	1001	987	923	890	821

ABL further disclosed that "lease terms vary but are generally 10 to 15 years for machines and equipment". Assuming average lease term of 12 years. Use the rate of 12% and 80% of future operating lease expenses to capitalize ABL's operating leases at December 31, 2021. Record the adjustment in ABL's balance sheet to reflect the capitalization of operating lease. How would this reporting change affect ABL's income statement in 2022? (Marks 5)

6. company A and B. Both firms belong to biscuit manufacturing industry with the same ROE of 22.5%. Use the ROE decomposition to identify which one is better to invest? (Marks 5)

	Profit Margin	Asset Turnover	Equity Multiplier
Company A	15%	0.5	3
Company B	7.5%	6	0.5