

**BIRLA INSTITUTE OF TECHNOLOGY AND SCIENCE, PILANI - K. K. BIRLA GOA CAMPUS**  
**Second Semester 2022-23, Mid-Semester Examination March, 2023**  
**BUSINESS ANALYSIS AND VALUATION (ECON F355)**

Date: 15/03/2023

Time: 90 Minutes

Total Marks: 35

1. Each question carries 1 mark. (1\*6 = 6 Marks)
  - a. A car manufacturer recognizes the sale of 40,000 cars in its income statement. The cars have a total selling price of €450,000 and a total cost of €350,000. All cars have been prepaid but not yet shipped to the customer. The car manufacturer's statutory and effective tax rate is 0 percent. Report the distortion created by the recognition of this sale.
  - b. "The fundamental rethinking and radical redesign of business processes" is referred to as: -----.
  - c. Performing the ----- is of crucial importance for effective strategic decision making to minimize the chance of making wrong decisions.
  - d. A company belongs to the ----- position of SPACE matrix should protect product competitiveness and think of penetrating the more attractive industry.
  - e. What is the ideal strategy for a Question Mark of BCG matrix? -----.
  - f. The accounting concept or convention which, in times of rising prices, tends to understate asset values and overstates profits, is the: -----.
  
2. In the past 6-year period, we have seen many crises such as NBFC crisis of ILFS and DHFL, COVID 19 and Ukraine –Russia war, and Adani crisis. And now we are facing with the recent SVB and Signature Bank collapse in US. One major crisis every year. How could this happen given the large number of financial and information intermediaries working in financial markets throughout the world? Can crises be averted by more effective financial analysis? Write your analysis by taking the reference of above cases. (Marks 6)
  
3. Many firms recognize revenues at the point of shipment. This provides an incentive to accelerate revenues by shipping goods at the end of the quarter. Consider two companies, one of which ships its products evenly throughout the quarter, and the second of which ships all its products in the last two weeks of the quarter. Each company pays thirty days after receiving shipment. How can you distinguish these companies using accounting ratios? (Marks 4)
  
4. In 2004 Lufthansa, the German national airline, reported that it depreciated its aircraft over 15 years on a straight-line basis, with an estimated residual value of 18% of initial cost. Air France-KLM, an airline formed in 2004 by the merger of the French air-line Air France and the Dutch airline KLM, is one of Lufthansa's main competitors. In contrast to

Lufthansa, Air France-KLM reported that its aircraft depreciation was also estimated using the straight-line method but assuming an average life of 20 years and residual value of 12% of initial cost.

Lufthansa reported in its 2009 Annual Report the total cost of its aircraft at the beginning of 2009 as € 25,768 m, and that accumulated depreciation was € 17,547 m. Estimate the average life of Lufthansa's fleet. Lufthansa made another new investment in new aircraft for € 6,750 m at the beginning of 2009. Record the necessary adjustments in the financial statement of Lufthansa for the year 2009 by considering the useful life and salvage estimates of Air France-KLM for both the investments of Lufthansa. Assume the marginal tax rate of 25%. (Marks 6)

5. Compute the five component ratios of a decomposition of ROE for IBM's fiscal years 2016-2019 and analyze the performance of IBM based on the results. (Marks 6)

	2019	2018	2017	2016
Net Profit	\$9,431	\$8,728	\$5,753	\$11,872
Net Sales	\$77,147	\$79,591	\$79,139	\$79,920
Avg. Total Sales	\$77,147	\$79,591	\$79,139	\$79,920
Avg. Total Assets	\$137,784	\$124,369	\$121,413	\$117,470
Net Income	\$9,431	\$8,728	\$5,753	\$11,872
Total Debt	\$62,899	\$42,656	\$45,051	\$40,894
Shareholder's Equity	\$20,985	\$16,929	\$17,725	\$18,392

6. On December 31, 2017 and 2018 Deutsche Telecom AG had net trade receivables in the amount of € 8000 million and € 10,000 million, respectively. The following proportion of the receivables was past due on the reporting date. (Marks 7)

	<b>2017</b>	<b>2018</b>
Not past due on the reporting date	(35%), 2,800	(30%) 3,000
Past due on the reporting date	(65%), 5,200	(70%) 7,000
Total	(100%), 8000	(100%) 10,000

The changes in Deutsche Telecom's allowance for doubtful receivables were as follows:

<b>Item</b>	<b>2017</b>	<b>2018</b>
Allowance on January 1	1,560	1,600
Additions (allowance recognized as expense)	780	775
Allowance on December 31	1,600	1,680

Assume that Deutsche Telecom's statutory tax rate was 30.7 percent in 2017 and 2018. Further assume that an analyst wishes to recognize an additional allowance for 25 percent of the receivables that are past due on the reporting date.

- a) What adjustments should the analyst make to Deutsche Telecom's balance sheet at the end of 2017?
- b) What adjustments should the analyst make to deutsche Telecom's 2018 income statement?