6

CHAPTER

Other Non-DCF Approaches

Multiple Choice Questions

1. Unlike the book value approach, the contingent claims approach to valuation relies more on the strategic dimensions of the company's business:
(a) True (b) False

2. Accountants typically ignore intangible assets as they are yet to figure out a reliable way to value them:
(a) True (b) False

3. Work-in-process may be valued as sales less operating expenses:
(a) True (b) False

4. In valuation, replacement cost of an infrequently used building is usually set at its fair market value:
(a) True (b) False

5. Liquidation value approach may not be appropriate in valuing an IT company:
(a) True (b) False

6. Due to various reasons, market tends to be efficient even when there is little competition:
(a) True (b) False

7. According to efficient market hypothesis, the market value of a security cannot deviate from its intrinsic value over an extended period of time:
(a) True (b) False

8. Efficient market hypothesis implies that the market has the habit of getting continually surprised:
(a) True (b) False

9. Efficient market hypothesis points to the irrelevance of the so called market experts:
(a) True (b) False

10. Efficient market hypothesis indicates that the randomness of the stock price changes can be reduced if investors are rational and competitive:
(a) True (b) False

11. According to the efficient market hypothesis, stock price changes are immediate:
(a) True (b) False

12. It has been observed that investors in large firms generally earn less than those in small firms:
(a) True (b) False

13. A number of studies have found that growth stocks tend to underperform value stocks:
(a) True (b) False

14. Active research in market inefficiency has considerably helped in corporate valuation methodology:
(a) True (b) False

15. An implication of the efficient market hypothesis is that average historical stock prices data is useless for price forecasts:
(a) True (b) False

16. Relative valuation approaches make good use of the stock and debt approach:
(a) True (b) False

17. Strategic approach to valuation has now almost fully replaced the conventional DCF approach:
(a) True (b) False

18. DCF approach to valuation is highly conjectural:
(a) True (b) False

19. In the cash flow approach, the cash flow information on the stable growth period is less reliable than that on the explicit growth period:
(a) True (b) False

20. Information about the resources invested convey a great deal about the expected cash flows:
(a) True (b) False

21. The strategic approach to valuation values a company by estimating the market value of its present and future production tools-viz. assets.
(a) True (b) False

22. 22In strategic approach to valuation, the reproduction cost for account receivables will be slightly higher than the book value:
(a) True (b) False

23. Economic depreciation is equivalent to maintenance capital expense:
(a) True (b) False

24. If the earning power is Rs.60 crore and WACC is 12 percent, the earning power value is Rs.5000 crore:
(a) True (b) False

25. For a company that enjoys sustainable competitive advantage, the assets value exceeds the earning power value:
(a) True (b) False

26. In a majority of industries, the asset value would be almost equal to the earning power value:
(a) True (b) False

27. When the earning power value is more than the asset value, growth is bad for a company:
(a) True (b) False

28. It may indeed be a daunting task to value a company using the strategic approach if the company has no sustainable competitive advantage:
(a) True (b) False

29. The principal weakness of the liquidation value approach to corporate valuation is that
(a) it does not value the firm as a going concern
(b) it ignores organizational capital
(c) it ignores time value of money

(d) both (a) and (b)
(e) None of the above

30. Which of the following corporate valuation method is least affected by market valuation errors?
(a) Stock and debt approach
(b) DCF approach
(c) Direct comparison approach
(d) Both (a) and (c)
(e) None of the above

31. Which of the following could drive a wedge between the book value of an asset and its current value?
(a) Interest rate
(b) Inflation
(c) Tax rate
(d) Growth rate
(e) None of the above

32. In adjusting book values for valuation purposes, raw materials may be valued at their:
(a) Most recent cost of acquisition
(b) Current market price
(c) Purchase price or market price whichever is higher
(d) Market price or purchase price whichever is lower
(e) None of the above

33. In the book value approach to valuation, deposits are valued at their book value:
(a) True (b) False

34. In the book value approach to valuation, non-operating asset such as excess land is valued at:
(a) Its original cost
(b) Its book value
(c) Its fair market value
(d) (a) or (c) whichever is lower
(e) None of the above

35. Unadjusted book value approach makes sense in the appraisal of:
(a) Industries open to high competition
(b) Regulated industries
(c) Knowledge based industries
(d) Eco-friendly industries
(e) None of the above

36. There is considerable scope for accounting manipulation in fair value accounting:
(a) True (b) False

37. Fair value accounting tends to give:
(a) Higher profits
(b) Lower profits
(c) Stable profits

(d) Volatile profits
(e) None of the above.

38. Efficient market hypothesis says that
(a) The market prices are exaggerated
(b) Price movements are irrational
(c) Market prices impound all available information
(d) Only efficient investors can beat the market
(e) None of the above

39. According to Weak form efficiency, market prices impound available
(a) Past information
(b) Private information
(c) Public information
(d) Future information
(e) None of the above

40. According to the semi-strong form of the efficient market hypothesis, stock prices
(a) Fully reflect all historical price information
(b) Fully reflect all information, public as well as private
(c) May be predictable
(d) Fully reflect all publicly available information
(e) None of the above

41. Market efficiency implies that:
(a) Errors in the market prices are biased
(b) Market price equals intrinsic value
(c) Price deviations cannot be predicted
(d) It is not possible to identify over and under-valued stocks
(e) None of the above

42. The "day of the week" effect:
(a) Supports the EMH
(b) Is against the EMH
(c) Has nothing to do with the EMH
(d) Conditionally supports EMH
(e) None of the above

43. January effect is an evidence against EMH.
(a) True (b) False

44. Lien date for an appraiser means:
(a) Valuation date
(b) Deal date
(c) Holiday
(d) The date on which a project is assigned to her
(e) None of the above

45. The strategic approach to valuation involves decomposing the value of a company into:
(a) Asset value
(b) Franchise value
(c) Growth value
(d) All the above
(e) None of the above

46. In strategic approach to valuation, it is considered advisable to value inventories at a discount higher than that for the receivables:
(a) True (b) False

47. In strategic valuation, which of the following may be taken without any discount?
(a) Liabilities
(b) Receivables
(c) Investments
(d) Both (a) and (b)
(e) None of the above

48. Economic depreciation is the amount needed in a year to:
(a) Replace the economic assets of the firm
(b) To protect the productive capacity of the firm
(c) To ensure the economic viability of the long term fixed assets of the subject firm
(d) Actually substitute the uneconomic assets of the firm with the economic ones
(e) None of the above

49. If the earning power is 1,000 million and the return on equity is 12 percent the earning power value is:
(a) 8,333 million
(b) 120 million
(c) 0.0012 million
(d) 12,000 million
(e) None of the above

50. The difference between the EPV and the asset value is called:
(a) Franchise value
(b) Earnings power value
(c) Earnings asset value
(d) Economic franchise value
(e) None of the above