

INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR

Department of Humanities and Social Sciences

Mid-Spring Semester Examination - 2022-23

Date: Tuesday, February 21, 2023

Full Marks: 30

Time: 2.00 - 4.00 PM

Sub. Code: HS30202

Corporate Valuation and Restructuring

- Answer all the questions
- Q 1-4 carry one mark each; Q 5-8 carry two marks each; Q 9 carries 16 marks
- Assume values in case required
- No queries during the examination

- What is accounting principle of conservatism related to intangible assets?
- List two reasons for retail firms to have similar kind of current ratios.
- Can two firms have similar ROA despite different profit margin? Why?
- List two reasons for a company having higher account payable?
- Explain the differences in the account receivable position (Refer Table 1).

Table 1: Account Receivable Position

Wal-Mart	\$5. 6 billion (1.1 % sales)
Staples (office supply chain)	\$1. 4 billion (6.7% of sales)
Intel (semiconductor chip manufacturer)	\$4.8 billion (8.9 % of sales)

- An entity has earnings per share of €0.50, average total assets of €40 million, and average total liabilities of €10 million. Its weighted average number of shares outstanding was 4 million, and the average market value for each share was €8. The company only has one class of equity, common shares. What is its return on equity (ROE)?
- The Walt Disney Company (NYSE:DIS) has the following information available for 2019 (in millions): net income of \$11,054, total revenues of \$69,570, total assets of \$193,984, and total liabilities of \$100,095. What is its asset turnover (use total assets instead of average assets)?
- What is the usefulness of EBITA in corporate valuation? How it is related to the revenue of a company?

9. What are other assets and how they are accounted? Explain it with LinkedIn-Microsoft example.
10. Using the data presented in Table 3, please identify the following industries and complete Table 2. You are expected to present your identification in tabular format as given here.

Table 2: Industry Analysis for Corporate Valuation

Name of the Industry	Ind. Code	Major metrics used to identify
Liquor producer and distributor - <i>High return</i>		
Discount airline		
Commercial bank		
Computer software company		
Large integrated oil and gas company		
Mobile phone service operator		
R & D-based pharmaceutical manufacturer		
Retail grocery company - <i>High asset</i>		
R & D-based semiconductor manufacturer		

The details of the short-forms used in Table 3

Cash & Mkt Sec.	Cash and Short-Term Investments
PPE	Plant, Property and Equipment
Acm. Depreciation	Accumulated Depreciation
Notes Payable	Notes Payable and other short-term borrowings
LT	Long term
I Taxes Payable	Income Taxes Payable
Red. Non-cntrl. Int.	Redeemable Non-controlling Interest
Deferred Taxes	Deferred Taxes and Investment Tax Credit
Red. Non-cntrl. Int.	Redeemable Non-controlling Interest
Preferred Stock	Redeemable
Preferred Stock - Non-Red	Preferred Stock - Non-redeemable
Non-red. Non-cntrl. Int.	Non-redeemable Non-controlling Interest

Table 3: Financial Metrics sized by total assets (%)

	1	2	3	4	5	6	7	8	9
Assets	1.4	8.7	21.4	17.4	51.9	16.6	10.4	3.6	2.8
Cash & Mkt Sec	4.8	14.2	4.7	11.8	12.2	1.9	55.1	3.2	10.6
Net Receivables	0.4	21.6	5.3	7.6	1.3	2.4	3.0	21.5	4.5
Inventories	0.4	3.7	0.0	-	0.0	-	0.0	-	0.0
Prepaid Expenses	1.4	3.0	4.8	2.3	3.8	2.5	-	1.0	1.6
Other Current Assets	8.4	51.2	36.1	39.1	69.2	23.3	68.5	29.3	19.5
Total Current Assets	98.2	25.7	79.8	43.7	15.9	104.8	-	85.0	122.3
Gross PPE	-58.3	-13.5	-46.3	-21.0	-8.8	-36.5	-	-27.3	-54.6
Acm. Depreciation	40.0	12.2	33.5	22.7	7.1	68.3	(0.8)	57.7	67.7
Net PPE	1.5	-	1.5	-	-	0.0	0.7	-	8.4
Investments at Equity	-	-	7.8	17.3	8.0	0.3	22.2	0.0	2.0
Other Investments	47.6	34.7	19.2	13.8	14.0	6.0	3.3	10.1	-
Intangibles	0.0	0.0	0.0	0.0	0.0	0.0	-	-	0.0
Deferred Charges	2.6	1.9	1.9	7.0	1.6	2.1	-	2.9	2.4
Others Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Assets	1	2	3	4	5	6	7	8	9
Liabilities	3.9	3.5	3.7	3.3	3.7	5.3	70.4	18.7	11.6
Accounts Payable	0.0	0.1	0.3	0.0	0.4	0.0	3.8	3.1	2.1
Notes Payable	1.5	0.0	0.0	2.5	1.0	2.8	1.1	2.1	0.5
Current Portion of LT Debt	1.5	0.2	0.3	2.5	1.4	2.8	4.9	5.1	2.7
Total Current Debt	0.5	0.8	0.0	0.6	0.5	0.5	0.7	3.0	-
I. Taxes Payable	3.5	8.2	9.2	-	3.0	5.4	-	8.9	-
Accrued Expenses	2.5	0.1	2.4	19.0	18.0	12.5	-	0.4	3.9
Other Current Liabilities	6.0	8.4	11.6	19.0	20.9	18.0	-	9.3	3.9
Total Other Current Liab.	11.9	12.8	15.6	25.4	26.6	26.5	75.3	33.8	21.1
Total Current Liabilities	24.0	22.1	13.3	14.7	9.9	14.7	8.4	22.2	2.4
Long Term Debts	11.0	4.0	4.2	-	1.4	15.0	0.4	2.3	11.3
Deferred Taxes	17.7	9.8	4.2	15.5	8.0	6.0	5.3	1.6	14.5
Other Liabilities	64.6	48.7	37.2	55.6	45.9	62.1	88.9	59.9	49.3
Total Liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0
Red. Non-cntrl. Int.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.0
Preferred Stock- Red.	0.0	0.0	0.0	0.0	0.0	0.0	0.9	-	-
Preferred Stock- Non-red	-	-	-	-	-	-	0.9	-	-
Total Preference Stock	2.4	0.8	0.0	2.1	0.0	4.3	0.6	0.2	2.9
Common Stock	33.3	1.8	23.4	14.4	47.0	6.5	4.1	1.6	0.0
Capital Surplus	11.6	69.9	39.3	37.0	7.0	30.7	5.7	35.5	103.9
Retained Earnings	-12.1	-21.1	-	-9.1	-	-3.8	-0.4	-	-58.0
Less: Treasury Stock	35.2	51.3	62.8	44.4	54.1	37.9	10.1	37.2	48.8
Common Equity	35.2	51.3	62.8	44.4	54.1	37.9	11.0	37.2	48.8
Shareholder's Equity—Parent	0.1	0.0	0.0	0.0	0.0	0.0	0.1	2.5	1.8
Non-red. Non-cntrl. Int.	35.4	51.3	62.8	44.4	54.1	37.9	11.1	39.7	50.7
Stockholders' Equity Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Liabilities & Equity									