

B.C.M.SCHOOL, BASANT AVENUE, LUDHIANA

X IFM Ans.Key of Revision Assign 2

Ques 1 The P/E ratio is used in:

- ☒ a) Financial analysis

Explanation:

The Price-to-Earnings (P/E) ratio helps investors assess a company's valuation by comparing its market price per share to its earnings per share (EPS). It is a key tool in financial analysis to evaluate whether a stock is overvalued or undervalued.

Ques 2 A company announces a 4-for-1 stock split. Before the split, an investor owns 100 shares priced at ₹800 each. What will the investor have after the split?

- ☒ c) 400 shares at ₹200 each

Explanation:

In a 4-for-1 split, each share is divided into 4 new shares.

Shares after split = $100 \times 4 = 400$ shares

Price per share = $₹800 \div 4 = ₹200$ each

Total value remains ₹80,000.

Ques 3 How can we determine the future value of a single cash flow?

- ☒ By using the formula:

$$FV = PV \times (1 + r)^n$$

Where:

FV = Future Value

PV = Present Value

r = Rate of interest (per period)

n = Number of periods

Ques 4 Suppose you are given two options:

- a) Receive ₹10,000 now
- b) Receive ₹10,000 after 3 years

☒ option (a) — Receive ₹10,000 now.

Reason:

Money received today has a higher value due to time value of money — it can be invested to earn interest over 3 years, making it worth more in the future.

Ques 5 What is a Book-closure date?

☒ The book-closure date is the period during which a company closes its register of shareholders.

During this time, no transfers of shares are registered, and it is used to determine which shareholders are eligible for dividends, bonuses, or rights issues.

Ques 6 Differentiate between Equity Shareholders and Preference Shareholders

Basis	Equity Shareholders	Preference Shareholders
-------	---------------------	-------------------------

Dividend	Variable and paid after preference shareholders/	Fixed and paid before equity shareholders
----------	--	---

Voting Rights	Have voting rights	/Usually no voting rights
---------------	--------------------	---------------------------

Repayment at Liquidation	Paid after all liabilities	/Paid before equity shareholders
--------------------------	----------------------------	----------------------------------

Ques 7 What is buyback of shares?

☒ Buyback of shares means when a company repurchases its own shares from the existing shareholders, usually at a premium.

Purpose:

To reduce the number of shares in circulation

To increase earnings per share (EPS)

To show confidence in the company's performance

Ques 8 Define the terms:

Authorised Capital:

The maximum amount of share capital a company is legally allowed to issue as stated in its Memorandum of Association.

Pay-in:

The process of depositing money or securities by investors to the stock exchange through brokers for settlement of trades.

Ques 9 What should one look for in a Profit and Loss Account?

✅ Key elements to analyse include:

1. Revenue or Sales – Indicates total income earned.
2. Cost of Goods Sold (COGS) – Shows production costs.
3. Gross Profit and Net Profit – Reflect profitability.
4. Operating Expenses – Helps assess efficiency.
5. Interest and Taxes – Show financial obligations.
6. Earnings per Share (EPS) – Indicates returns to shareholders.

Ques 10 How to systematically analyse a company?

✅ Steps to systematically analyse a company:

1. Industry analysis
2. Corporate analysis
3. Financial analysis