2002 Paper 9 Question 5

Business Studies

(*a*) Explain the differences between

(*i*) credit and debit;

(*ii*) cash-flow and profit & loss statements;

(*iii*) equity and debt finance;

(*iv*) NPV and IRR;

(*v*) asset and DCF based valuation.

[2 marks each]

(*b*) A certain small software company has assets of about £100K (not including development work-in-progress), and an average cash-flow of about £15,000 per month, with a net profit of around £2000 per month. They are developing, but have not yet completed, a new graphical search engine into which they have invested about £100K of design and programmer time. The founders have invested about £150K, mostly in equity, and there is a long term debenture of £100K.

Provide a range of valuations for the company. Include notes explaining your assumptions and the basis for each valuation. [10 marks]