ANSWERS TO MULTIPLE CHOICE QUESTIONS ON INCOME APPROACH

A. 7.1	D. Income approach	
A. 7.2	D. All of the above	
A. 7.3	D. All of the above	
A. 7.4	A. Rent capitalization method. It is assumed that annual income of the property will remain same during the entire economic life of the property. Hence 1st year's annual income is taken as annual income for the entire economic life of the property.	
A. 7.5	B. Net Present Value. This is one of the methods of valuation using Discounted Cash Flow in which all the cash flows during the economic life of the property are considered for estimation of market value.	
A. 7.6	C. Internal Rate of Return method	
A. 7.7	B. Internal Rate of Return	
A. 7.8	B. Internal Rate of Return	
A.7. 9	D. Lower discounting rate. N_1 is NPV at lower discounting rate, N_2 is NPV at higher discounting rate and N_2 is NPV at higher discounting rate.	
A. 7.10	A. By analyzing sales transactions in the area.	
A. 7.11	A. 3.0% p. a. Capital Value = Net Annual Income x Y. P. Y. P.$_{(In perpetuity)}$ = 100 / R R = 7500 x 12 x 100 / 3000000 = 3 % p. a.	
A. 7.12	C. Rs.22,50,000.00 Y. P.$_{(In perpetuity)}$ = 100 / R 100 / 4 = 25 Markat Value = Net Annual Income x Y. P. = 90000 x 25 = Rs.22,50,000.00	
A. 7.13	B. Remaining economic life of the building.	
A. 7.14	A. The economic life of an asset is the number of years an asset is likely to remain in service for the purpose of cost-effective revenue generation.	

A. 7.15	D. Gross Annual Income less annual outgoings
A. 7.16	D. Individual electricity bill (Payment of electricity bill for common spaces is included in annual outgoing)
A. 7.17	C. It is a universal criterion for comparison of immovable properties. The rate of interest yielded by immovable properties which is almost universal and changes according to the type of properties (e. g. residential, commercial, etc.). It varies very slightly according to the location and national economic conditions. Therefore forms an ideal unit of comparison.
A. 7.18	B. Normal period of economy
A. 7.19	A. Boom period of economy
A. 7.20	C. Recession period of economy
A. 7.21	D. All of the above
A. 7.22	D. All of the above
A. 7.23	C. Both of the above
A.7.24	B. By adopting interest rate derived by analyzing recent sale transactions of similar rent controlled properties in the area.
A. 7.25	C. No, help of some other method will be required to estimate market value of balance potential of the plot available for development
A. 7.26	C. All of the above
A. 7.27	C. Right of the lessor to take possession of the leased property upon termination of the term of lease
A. 7.28	C. Value of the lessor's interest when it reverts back to the lessor after termination of the term of lease.
A. 7.29	B. To enjoy profit rent
A. 7.30	D. Difference between the Fair market rent and rent reserved under the lease.
A. 7.31	C. Profit rent from the property is capitalized by using single rate Y. P.

A. 7.32	C. Rent reserved under the lease is capitalized for unexpired period of lease using single(remunerative) rate Y. P.
A. 7.33	B. Net income after reversion is capitalized using single rate (remunerative) Y. P. in perpetuity and deferred by the unexpired period of lease.
A. 7.34	C. interest of lessor is considered more secured as compared to the interest of the lessee.
A. 7.35	C. Both of the above are correct. Technically speaking sum of lessor's interest and lessee's interest can not be equal to the market value of the freehold property because they are estimated using different rate of capitalization. But the Supreme Court of India has considered them equal. Hence both the answers 'A' & 'B' are correct.
A. 7.36	B. Rs.2,13,82,000.00
A. 7.37	B.Rs49,55,328.00
A. 7.38	C. Rs.12,19,000.00 After reversion: Annual rent = 35000 x 12 = Rs.420000.00 Right of reversion = 420000 x 100 / 6* = Rs.7000000.00 This will be realized after 30 years. Hence to estimate its present value deferred by 30 years: = 7000000 x 1 / (1 + 6/100)^{30} = Rs.12,18,771.17 Say Rs.12,19,000.00 *Y. P. in perpetuity
A. 7.39	C. Rs.1,21,87,700.00 Value of the land at the prevailing market rate = 35000x2000 = Rs.70000000.00 to be realized after 30 years Present value = 70000000 x 1 / (! + 6/100)^{30} = Rs.1,21,87,709.16 Say Rs.1,21,87,700.00.
A. 7.40	A. Sinking fund

A. 7.41	B. 2.6 Profitability Index = (PV of future cash flows) ÷ Initial investment Or = (NPV + Initial investment) ÷ Initial Investment: As one would expect, the NPV stands for the Net Present Value of the initial investment. Profitability Index = (16 + 10) / 10 = 2.6 That means a company should perform the investment project because profitability index is greater than 1.
A. 7.42	A. is an annual sum required to be invested to amount to Rs.1.00 in a specified number of years.
A. 7.43	C. decrease in rate of capitalization Market Value = Net Annual Income x Y. P. Y. P.$_{\text{Perpetuity}}$ = 100 / Rate of capitalization Market Value = Net Annual Income x 100 / Rate of capitalization That is for a given Net Annual Income market Value is inversely proportional to the rate of capitalization.
A. 7.44	B. Negligible Since Reversionary Value is estimated by discounting Future Value (FV) of the property after expiry of the lease period. Hence Present Value (PV) will be inversely proportional to the period of the lease. $PV = FV \times 1 / (1 + R)^N$ Where; R = Remunerative rate of interest N = Unexpired period of lease
A. 7.45	C. Annual turnover
A. 7.46	C. Contractual rent
A. 7.47	D. Surrender after expiry of lease period
A. 7.48	C. A positive value
A. 7.49	C. When the acceptable IRR is equal to the discount rate. When NPV of an investment is equal to zero it means the discount rate is equal to the investment's Internal Rate of Return. If this IRR is acceptable to the investors at zero NPV too a project may be acceptable to them.
A. 7.50	C. Income approach
A. 7.51	B. Discounted Cash Flow method
A. 7.52	A. Financial lease