ACC501 Midterm Solved MCQ’s

|  |
| --- |
|  |
| **1. The difference between the return on a risky investment and that on a risk-free investment.** |
| 1. Risk Return 2. **Risk Premium** 3. Risk Factor 4. None of the above |
| **2. A group of assets such as stocks and bonds held by an investor.** |
| 1. **Portfolio** 2. Capital Structure 3. Budget 4. None of the above |
| **3. If the variance or standard deviation is larger then the spread in returns will be:** |
| 1. Less 2. **More** 3. Same 4. None of the Above |
| **4. The following risk is entirely wiped out by Diversification.** |
| 1. Systematic Risk 2. **Unsystematic Risk** 3. Portfolio Risk 4. Total Risk |
| **5. The objective for using the concept of Diversification is to :** |
| 1. Minimize the Risk 2. Maximize the return 3. **A & B** 4. None of the Above |
| **6. While studying the relationship in risk and return, It is commonly known that:** |
| 1. Higher the risk, lower the return 2. Lower the risk, higher the return 3. **Higher the risk, higher the return** 4. None of the above |
| **7. This type of risk affects almost all types of assets.** |
| 1. **Systematic Risk** 2. Unsystematic Risk 3. Total Risk 4. Portfolio Risk |
| **MCQ # 08 – 10 are based on the following data:** |
| **Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).** |
| **8. According to the given data, the Capital Gain will be:** |
| 1. 10,500 2. **7,500** 3. 10,000 4. 7,000 |
| **9. According to the given data, the Dividend yield will be:** |
| 1. 8.50 % 2. 6.25% 3. **8.00%** 4. 6.67% |
| **10. According to the given data, Total Percentage Returns will be:** |
| 1. 20% 2. **28%** 3. 32% 4. 35% |

1. Which one of the given options involves the sale of new securities from the issuing company to general public?
   1. Secondary market
   2. Primary market
   3. Capital market
   4. Money market
2. In financial statement analysis, shareholders focus will be on the:
   1. Liquidity of the firm
   2. Long term cash flow of the firm
   3. Profitability and long term health of the firm
   4. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
   1. The impact of buying and selling fixed assets.
   2. The company's ability to pay debts, interest and dividends.
   3. A company's need for external financing.
   4. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
   1. Fall
   2. Rise
   3. Remain unchanged
   4. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
   1. 1.42215
   2. 2.75886
   3. 3.75886
   4. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
   1. Compounded daily
   2. Compounded quarterly
   3. Compounded semiannually
   4. Compounded annually
7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
   1. a.Rs. 200 million
   2. b.Rs.240 million
   3. c.Rs.275 million
   4. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
   1. 6.12 times
   2. 7.11 times
   3. 8.11 times
   4. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
   1. 20.00%
   2. 20.50%
   3. 21.00%
   4. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
    1. Rs.60, 000
    2. Rs.64, 000
    3. Rs.72, 000
    4. Rs.74, 000

1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be --------------, if the required rate of return is 25%?

a. Rs.60

b. Rs.64

c. Rs.68

d. Rs.74

2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company’s dividend grows by 7%.The price per share in this case would be\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. Rs.149.8

b. Rs.184.9

c. Rs.198.4

d. Rs.229.9

3. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?

a. 17%

b. 27%

c. 37%

d. 47%

4. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast

a. 150 votes

b. 210 votes

c. 240 votes

d. 300 votes

5. \_\_\_\_\_\_\_\_ is the market in which already issued securities are traded among investors.

a. Primary market

b. Secondary market

c. Financial market

d. Capital market

6. Suppose Mehran Corporation is dealing in the Automobile industry. Based on projected costs and sales, it expects that the cash flows over the 3-year life of the project will be Rs.5, 000,000 in first year, Rs.7, 000,000 in the next year and Rs.8, 000,000 in the last year. This project would cost about Rs. 10,000,000.The net present value of the project would be \_\_\_\_\_\_\_\_, if discount rate is assumed to be 25%.

a. Rs.2, 576, 000

b. Rs.3, 576, 000

c. Rs.1, 576, 000

d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year Cash Flows

1. Rs.500,000
2. Rs.800,000
3. Rs.600,000

The projects costs are Rs.1, 500,000. The payback period for this investment would be \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. 1.50 years

b. 2.00 years

c. 2.33 years

d. 3.00 years

8. Suppose Z Corporation, has the present value of its future cash flows is Rs.450, 000 and the project has a cost of Rs.300, 000, then the profitability index would be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. 0.667

b. 1

c. 1.25

d. 1.50

9. Fee paid to the consultant for evaluating the project is an example of \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. Opportunity cost

b. Sunk cost

c. Decremental cost

d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is

Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. Rs. 3,810,000

b. Rs. 4,810,000

c. Rs. 5,190,000

d. Rs. 6,890,000

**Select the correct option form the following choices:**

1. Treasury notes and bonds are:
   1. Default free
   2. Taxable
   3. Highly liquid
   4. **All of the given options**
2. The difference between an investment’s market value and its cost is called the \_\_\_\_\_\_\_\_\_\_ of the investment.
   1. **Net present value**
   2. Economic value
   3. Book value
   4. Future value
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_\_\_.
   1. **Higher**
   2. Lower
   3. Constant
   4. None of the given options
4. \_\_\_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder’s share.
   1. Cumulative voting
   2. Straight voting
   3. **Proxy voting**
   4. None of the given options
5. The payment of the dividend is at the discretion of the:
   1. Chairman
   2. **Board of directors**
   3. Shareholders
   4. Stakeholders
6. Based on \_\_\_\_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
   1. Profitability index
   2. Payback period
   3. **Internal rate of return**
   4. Net present value
7. If two investments are mutually exclusive, then taking one of them means that:
   1. **We cannot take the other one**
   2. The other is pending for the next period
   3. The projects are independent
   4. None of the given options
8. Profitability index (PI) rule is to take an investment, if the index exceeds\_\_\_\_\_\_:
   1. -1
   2. 0
   3. **1**
   4. All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
   1. **Book value**
   2. Intrinsic value
   3. Cost
   4. Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
    1. Erosion
    2. Piracy
    3. Cannibalism
    4. **All of the given options**

**1. The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale is called --------------.**

* 1. **Operating Cycle**
  2. Cash Cycle
  3. Receivable period
  4. Inventory period

1. **Which of the following does not affect cash cycle of a company?**
2. Inventory period
3. Accounts receivable period
4. Accounts payable turnover
5. **None of the given option**
6. **Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**
7. 100,000
8. **97,000**
9. 103,000
10. 50,000
11. **A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?**
12. 3.347 approximately
13. 5.347 approximately
14. **2.347 approximately**
15. 6.253 approximately
16. **During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?**
17. 234 days
18. **223 days**
19. 245 days
20. 230 days
21. **Which of the following is the cheapest source of financing available to a firm?**
22. Bank loan
23. Commercial papers
24. **Trade credit**
25. None of the given options.
26. **Which of the following illustrates the use of a hedging (or matching) approach to financing?**
27. Short-term assets financed with long-term liabilities.
28. **Permanent working capital financed with long-term liabilities.**
29. Short-term assets financed with equity.
30. All assets financed with a 50 percent equity, 50 percent long-term debt mixture
31. **--------------- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.**
32. **Cash discount**
33. Quantity discount
34. Float discount
35. All of the given options
36. **If a firm has a net float less than zero, then which of the following statements is true about the firm.**
37. **The firm’s disbursement float is less than its collection float.**
38. The firm’s collection float is equal to zero.
39. The firm’s collection float is less than its disbursement float.
40. None of the given options.
41. **Financing a long-lived asset with short-term financing would be**
42. An example of "moderate risk -- moderate (potential) profitability" asset financing.
43. An example of "low risk -- low (potential) profitability" asset financing.
44. **An example of "high risk -- high (potential) profitability" asset financing.**
45. An example of the "hedging approach" to financing

**Note: Correct options have been highlighted.**

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
   1. 66.67%
   2. 33.34%
   3. 0%
   4. **60%**
2. Suppose the common stocks of Bonanza Corporation have book value of $29 per share. The market price of these common stocks is $69.50 per share. The corporation paid $5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
   1. 11.15%
   2. 16.13%
   3. **15.80%**
   4. 13.14%
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
   1. They have a direct relationship
   2. **They have an indirect relationship**
   3. They have spontaneous relationship
   4. None of the given options
4. ---------------- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
   1. **Financial risk**
   2. Portfolio risk
   3. Operating risk
   4. Market risk
5. Let’s imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate $ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is $ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
   1. $202,200,000
   2. **$247,500,000**
   3. $283,500,000
   4. $321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
   1. 13.5%
   2. 17.75%
   3. **15.79%**
   4. 17.13%
7. Suppose Dux Corporation has current assets of $44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
   1. Source of cash
   2. Use of cash
   3. **Neither of the source of cash nor a use of cash**
   4. None of the given option
8. During 2005 a merchandize sales company had cash sales of $56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were13% of total sales. What was the average collection period of the company during 2005?
   1. 62 days
   2. 18 days
   3. **56 days**
   4. 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
   1. Rs.1,000,000
   2. Rs.1,200,000
   3. **Rs800,000**
   4. Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
    1. **Homemade leverage**
    2. Financial leverage
    3. Operating leverage
    4. None of the given option

|  |
| --- |
| ***Choose the Most Appropriate Answer among the given choices.*** |
| **1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.** |
| 1. Sunk cost 2. **Opportunity cost** 3. Financing cost 4. All of the given options |
| **2. SNT company paid a dividend of Rs. 5 per share last year. The stock’s current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?** |
| 1. 13.07 % 2. 15.67 % 3. 16.00 % 4. **18.80 %** |
| **3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.** |
| 1. **Portfolio** 2. Diversification 3. Stock Bundle 4. None of the given options |
| **4. Which of the following measures the present value of an investment per dollar invested?** |
| 1. Net Present Value (NPV) 2. **Profitability Index (PI)** 3. Average Accounting Return (AAR) 4. Internal Rate of Return (IRR) |
| **5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:** |
| 1. 37.5 % 2. 47.5 % 3. **62.5 %** 4. 72.5 % |
| **6. A risk that influences a large number of assets is known as:** |
| 1. Systematic Risk 2. Market Risk 3. Non-diversifiable Risk 4. **All of the given options** |
| **7. Which of the following risk can be eliminated by diversification?** |
| 1. Systematic Risk 2. **Unsystematic Risk** 3. A & B 4. None of the given options |
| **8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:** |
| 1. **2.6 Years** 2. 3.1 Years 3. 3.6 Years 4. 4.1 Years |
| **9. A model which makes an assumption about the future growth of dividends is known as:** |
| 1. Dividend Price Model 2. **Dividend Growth Model** 3. Dividend Policy Model 4. All of the given options |
| **10. Which of the following is not a quality of IRR ?** |
| 1. Most widely used 2. **Ideal to rank the mutually exclusive investments** 3. Easily communicated and understood 4. Can be estimated even without knowing the discount rate |

|  |
| --- |
| ***Most Appropriate Answer among the given choices has been selected..*** |
| **1. \_\_\_\_\_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.** |
| 1. Ordinary Annuity 2. **Perpetuity** 3. Dividend 4. Interest |
| **2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?** |
| 1. 15.00 % 2. 15.34 % 3. **15.87 %** 4. 16.42 % |
| **3. A bond represents a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ made by an investor to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.** |
| 1. loan; receiver 2. dividend; issuer 3. dividend, receiver 4. **loan; issuer** |
| **4. When the interest rates fall, the bond is worth \_\_\_\_\_\_\_\_\_\_\_\_\_\_.** |
| 1. **More** 2. Less 3. Same 4. All of the given options. |
| **5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?** |
| 1. 30 % 2. 50 % 3. **70 %** 4. 90 % |
| **6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:** |
| 1. Increase Profit Margin 2. Increase Total Assets Turnover 3. Sell new shares 4. **All of the given options.** |
| **7. \_\_\_\_\_\_\_\_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.** |
| 1. **Present Value** 2. Future Value 3. Capital Gain 4. Net Profit |
| **8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market’s required rate on similar bonds is 12% p. a. What would be the present value of each bond?** |
| 1. Rs. 319.45 2. Rs. 390.75 3. **Rs. 419.45** 4. Rs. 463.75 |
| **9. The sensitivity of Interest Rate Risk of a bond directly depends upon:** |
| 1. Time to maturity 2. Coupon rate 3. **A and B** 4. None of the given options |
| **10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?** |
| 1. **8 %** 2. 10 % 3. 12 % 4. 14 % |