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ACC501 Quiz Conference

(lecture 1 to 18)

1. Which of the following issue is NOT covered by “Investment” area of finance?
 Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

2. Period costs include which of the following?

Select correct option:

Selling expense

Raw material
Direct labor

Manufacturing overhead

3. Product costs include which of the following?

Select correct option:

Selling expenses
General expenses

Manufacturing overhead

Administrative expenses

4. Financial policy is evaluated by which of the following?

Select correct option:

Profit Margin

Total Assets Turnover

Debt-equity ratio

None of the given options

5. Cash flow from assets involves which of the following component(s)?

Select correct option:

Operating cash flow
Capital spending

Change in net working capital

All of the given options

6. Which of the following refers to the cash flows that result from the firm’s day-to-day

activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows
Financing Cash Flows
All of the given options

7. Finance is vital for which of the following business activity (activities)?

Select correct option:

Marketing Research
Product Pricing

Design of marketing and distribution channels

All of the given options

8. Which of the following costs are reported on the income statement as the cost of goods

sold?

Select correct option:

Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

9. Standard Company had net sales of Rs. 750,000 over the past year. During that time,
 average receivables were Rs. 150,000. Assuming a 365-day year, what was the average
 collection period?

Select correct option:

5 days

36 days
48 days

73 days

750000/150000=5
365/5=73days

10. Which of the following terms refers to the use of debt financing?
 Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage
None of the given options

11. In which type of market, new securities are traded?
 Select correct option:

Primary market

Secondary market
Tertiary market

None of the given options

12. Which of the following ratios are particularly interesting to short-term creditors?
 Select correct option:

Liquidity Ratios

Long-term Solvency Ratios
Profitability Ratios

Market Value Ratios

13. shows the sources from which cash has been generated and how it has been spent
 during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner’s Equity Statement

14. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction
 will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity
Investing activity
Financing activity

None of the given options

15. me: Quick Ratio is also known as:
 Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

16. of the following statement measures performance over a specific period of time?
 Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

17. A portion of profits, which a company retains itself for further expansion, is known as:
 Select correct option:

Dividends

Retained Earnings
Capital Gain

None of the given options

18. Net Income after taxation differs from Net Cash Flow from operations because:
 Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement
Non-cash items are included in the Income Statement, but not in the Cash Flow Statement
Cash sales are shown in the Cash Flow Statement but not in the Income Statement
Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

19. Which of the following statement shows assets, liabilities, and net worth as of a specific
 date?

Select correct option:

Income Statement

Balance Sheet

Owner’s Equity Statement
Cash Flow Statement

20. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

21. Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

Cash Coverage Ratio

Cash Ratio

22. Which of the following ratio gives an idea as to how efficient management is at using its
 assets to generate earnings?

Select correct option:

Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

23. Which of the following is an example of capital spending?

Select correct option:

Purchase of Fixed Assets

Decrease in Net Working Capital
Increase in Net Working Capital
None of the given options

24. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency

Asset use efficiency
Financial policy
Dividend policy

25. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts

Auditors

Marketers

26. Which of the following set of ratios is used to assess a business's ability to generate

earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios
Leverage Ratios
Profitability Ratios

Market Value Ratios

27. A company having a current ratio of 1 will have \_\_\_\_\_\_\_\_\_\_ net working capital.

Select correct option:

Positive

Negative
zero

None of the given options

28. which of the following is not a form of business organization

Select correct option:

sole proprietorship
partnership

joint stock company

cooperative Society

29. Which of the following ratios are intended to address the firm’s financial leverage?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Asset Management Ratios
Profitability Ratios

30. The accounting definition of income is:

Select correct option:

Income = Current Assets - Current Liabilities
Income = Fixed Assets - Current Assets
Income = Revenues - Current Liabilities

Income = Revenues - Expenses

31. Which of the following item(s) is(are) not included while calculating Operating Cash
 Flows?

Select correct option:

Depreciation

Interest

Expenses related to firm’s financing of its assets

All of the given options

32. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax
 proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

Solution=250000\*34%=85000
250,000-85000=165000

33. When a corporation wishes to borrow from public on a long-term basis, it does so by
 issuing or selling:

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

34. Which of the following set of ratios is used to assess a business's ability to generate

earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios
Leverage Ratios
Profitability Ratios
Market Value Ratios

35. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

36. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

37. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

Depreciation

All of the given options

38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

Rs. 100

Rs. 510
Rs. 1,000
Rs. 1,100

Solution:
=1000/10
=100

39. Which of the following comes under the head of discounted cash flow criteria for capital
 budgeting decisions?

Select correct option:

Payback Period lec 28

Net Present Value

Average Accounting Return
None of the given options

40. Period costs include which of the following?

Select correct option:

Selling expense

Raw material
Direct labor

Manufacturing overhead

41. The value of net working capital will be greater than zero when:

Select correct option:

Current Assets > Current Liabilities

Current Assets < Current Liabilities
Current Assets = Current Liabilities
None of the given options

42. According to Du Pont Identity, ROE is affected by which of the following?
 Select correct option:

Operating efficiency
Asset use efficiency
Financial Leverage

All of the given options

43. Which of the following issue is NOT covered by “Investment” area of finance?
 Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

44. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction
 will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity
Financing activity

None of the given options

45. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities
 of Rs. 460,000. What would be the Current Ratio for the company if there is an
 inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution= 700000/460000=1.52

46. In which type of business, all owners share in gains and losses and all have unlimited
 liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6
Limited Partnerhsip

Corporation

47. a firm uses cash to purchase inventory, its current ratio will:
 Select correct option:

Increase

Decrease

Remain unaffected

Become zero

48. Which of the following is a special case of annuity, where the stream of cash flows
 continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

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Annuity Due
Perpetuity

49. Which of the following is an example of positive covenant?
 Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

50. Which of the following refers to the difference between the sale price and cost of
 inventory?

Select correct option:
Net loss

Net worth

Markup

Markdown

51. Which of the following allows a company to repurchase part or all of the bond issue at a
 stated price?

Select correct option:
Repayment

Seniority

Call provision

Protective covenants

52. \_\_\_\_\_\_\_\_\_\_\_\_ shows the sources from which cash has been generated and how it has
 been spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner’s Equity Statement

53. Which of the following is a cash flow from financing activity?
 Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

54. Which of the following form of business organization is least regulated?
 Select correct option:

Sole-proprietorship

General Partnership
Limited Partnership
Corporation

55. The principal amount of a bond at issue is called:
 Select correct option:

Par value

Coupon value

Present value of an annuity
Present value of a lump sum

56. Which of the following relationships holds TRUE if a bond sells at a discount?
 Select correct option:

Bond Price < Par Value and YTM > coupon rate
Bond Price > Par Value and YTM > coupon rate
Bond Price > Par Value and YTM < coupon rate
Bond Price < Par Value and YTM < coupon rate

57. When a corporation wishes to borrow from public on a long-term basis, it does so by
 issuing or selling:

Select correct option:

Debt securities or bonds

Common Stocks

Preferred Stock

All of the given options

58. Which of the following item provides the important function of shielding part of income
 from taxes?

Select correct option:

Inventory

Supplies
Machinery

Depreciation

59. A firm reports total liabilities of Rs. 300,000 and owner’s equity of Rs. 500,000. What
 would be the total worth of the firm’s assets?

Select correct option:

Rs. 300,000

Rs. 500,000

Rs. 800,000

Rs. 1100,000

sol

Asset= liabilities+ capital so 300+500=800,000

60. Which of the following forms of business organizations is created as a distinct legal
 entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship
General Partnership
Limited Partnership

Corporation

61. in which form of Business, owners have limited libility.
 Select correct option:

sole proprietorship
partnership

joint stock company

none of the above

62. Which of the following equation is known as Cash Flow (CF) identity?
 Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder
CF from Assets = CF to Stockholders - CF to Creditors
CF to Stockholders = CF to Creditors + CF from Assets

CF from Assets = CF to Creditors + CF to Stockholder

63. The difference between current assets and current liabilities is known as:
 Select correct option:

Surplus Asset

Short-term Ratio

Working Capital

Current Ratio

64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent,
 what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

Rs. 22,697

Rs. 28,253

solution

40000\*1/(1+0.12)^5=22697.07

65. Which of the following statement is considered as the accountant’s snapshot of firm’s
 accounting value as of a particular date?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

66. The principal amount of a bond at issue is called:
 Select correct option:

Par value

Coupon value

Present value of an annuity
Present value of a lump sum

67. Which of the following statement about bond ratings is TRUE?
 Select correct option:

Bond ratings are typically paid for by a company’s bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

Bond ratings represent an independent assessment of the credit-worthiness of bonds. None of the given options

68. Which of the following is the acronym for GAAP?
 Select correct option:

Generally Applied Accountability Principles
General Accounting Assessment Principles

Generally Accepted Accounting Principles

General Accepted Assessment Principles

69. Which of the following is NOT an internal use of financial statements information?

Select correct option:

Planning for the future through historic information

Evaluation of performance through profit margin and return on equity Evaluation of credit standing of new customer

None of the given options

70. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is
 the retention ratio for the firm?

Select correct option:

12 %

25 %

40 %

60 %

Solution

Net income-dividend / net income \*100
250000-150000/250000\*100=40%

A company having a current ratio of 1 will have \_\_\_\_\_\_\_\_\_\_ net working capital. Select correct option:

Positive

Negative
zero

None of the given options

71. A portion of profits, which a company distributes among its shareholders, is known as:
 Select correct option:

Dividends

Retained Earnings
Capital Gain

None of the given options

72. Which of the following is(are) the basic area(s) of Finance?
 Select correct option:

Financial institutions
International finance
Investments

All of the given options

73. Which of the following ratios is NOT from the set of Asset Management Ratios?

Select correct option:

Inventory Turnover Ratio
Receivable Turnover
Capital Intensity Ratio

Return on Assets

74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.
 Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

75. Which of the following terms refers to the use of debt financing?
 Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage
 None of the given options
 b

76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent
 compounded annually, how long will you have to wait to buy the television?

Select correct option:

8.42 years

10.51 years

15.75 years

18.78 years

6000(1+5%)^10.51=around 10,000

77. Which of the following is an example of positive covenant?
 Select correct option:

Maintaining firm’s working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender Maintaining any collateral or security in good condition
Restricting selling or leasing assets

78. Which of the following is measured by retention ratio?
 Select correct option:

Operating efficiency
Asset use efficiency
Financial policy

Dividend policy

79. Which of the following statement shows assets, liabilities, and net worth as of a specific
 date?

Select correct option:

Income Statement

Balance Sheet

Owner’s Equity Statement
 Cash Flow Statement
 Armaan: b

80. Product costs include which of the following?
 Select correct option:

Selling expenses
General expenses

Manufacturing overhead

Administrative expenses

81. An account was opened with an investment of Rs. 3,000 ten years ago. The ending
 balance in the account is Rs. 4,100. If interest was compounded, how much
 compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752
Rs. 1,052

Rs. 1,100

4100-3000=1100

82. What is the effective annual rate of 7 percent compounded monthly?
 Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

83. Which of the following cash flow activities are reported in the Cash Flow Statement and
 Income Statement?

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

84. Which of the following term refers to establish of a standard to follow for comparison?
 Select correct option:

Benchmarking 48

Standardizing

Comparison
Evaluation

85. Which of the following is measured by profit margin?
 Select correct option:

Operating efficiency pg 44

Asset use efficiency

Financial policy
Dividend policy

86. Rule of 72 for finding the number of periods is fairly applicable to which of the
 following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

5% to 20%

10% to 50%

87. Which of the following refers to a conflict of interest between principal and agent?
 Select correct option:

Management Conflict

Interest Conflict

Agency Problem

None of the given options

88. Which of the following is a series of constant cash flows that occur at the end of each
 period for some fixed number of periods?

Select correct option:

Ordinary annuity 63

Annuity due

Perpetuity

None of the given options

89. Which of the following area of finance deals with stocks and bonds?
 Select correct option:

Financial institutions
International finance

Investments

All of the given options

90. 7:03 AM Which of the following is NOT an external use of financial statements

information?

Select correct option:

Evaluation of credit standing of new customer

Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

91. Which of the following is(are) the basic area(s) of Finance?
 Select correct option:

Financial institutions
International finance
Investments

All of the given options

92. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.

What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%
solution

Net income =ROA\*total asset
Net income=8%\*75000=6000

Profit margin=net income/ sales\*100
Profit margin=6000/100000\*100= 6%

93. Which of the following is the process of planning and managing a firm’s long-term

investments?

Select correct option:

Capital Structuring
Capital Rationing

Capital Budgeting

Working Capital Management

94. Which of the following refers to the cash flows that result from the firm’s day-to-day
 activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows
Financing Cash Flows
All of the given options

95. Quick Ratio is also known as:
 Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

96. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to
 employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

97. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and
 B will be \_\_ and \_\_ respectively.

Select correct option:

20%; 80%

37%; 63%
63%; 37%
80%; 20%

98. When corporations borrow, they generally promise to: I. Make regular scheduled
 interest payments II. Give the right of voting to bondholders III. Repay the original
 amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:
I and II

I and III

II and IV

I, III, and IV

99. Which of the following is NOT included in a bond indenture?
 Select correct option:

The basic terms of bond issue

The total amount of bonds issued

A personal profile of the issuer

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a

discount rate of 8 percent?

Select correct option:

Rs. 6,302

Rs. 9,981
Rs. 14,800
Rs. 15,869

101. Which of the following statement is TRUE regarding debt?
 Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

Corporation’s payment of interest on debt is fully taxable.

102. The preferred stock of a company currently sells for Rs. 25 per share. The annual

dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

103. Which of the following is a special case of annuity, where the stream of cash flows
 continues forever?

Select correct option:

Ordinary Annuity
Special Annuity
Annuity Due

Perpetuity

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 1.The time between sale of inventory and collection of receivable.

**a account receivable**

b operation cycle

c inventory period

d none of above

2. allow a bank to substitute its creditworthiness for the customer, for a fee is called\_\_\_\_\_\_\_\_\_\_\_-

a open bank account

b commercial draft

c promisory note

**d banker accetptance**

**3.**Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :
Select correct option:
Investment A is less volatile than Investment B
Investment B is equally volatile to Investment A
**Investment A is more volatile than Investment B**Investment B is more volatile than Investment A

4. find the average 2%,5%,6%,8%

a 5%

**b 5.25 %**

c 6%

d 8%

5 what is standard deviation of thise averages 2%,5%, 7%

6.**As the dividend is always same for a zero growth stock, so the stock can also be viewed as**

**7.Which of the following statement shows revenue, expense, and net worth as of a specific date?**

a balance sheet

**b income statement**

c cashflow

d none of above

8. which of the following character is not a systematic risk

market risk

interest risk

inflation risk

**strike call in a company**

9. A company has a two director and 1 shareholder which hav 25 power of share the voter for director is

a 100

b150

**c50**

d25

10.**An investment will be *\_\_\_\_\_\_\_\_\_* if the IRR doesn’t exceeds the required return and *\_\_\_\_\_\_\_\_\_*** **otherwise.**Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected
**Rejected; accepted**

**11.** Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?
Select correct option:
IRR (Internal Rate of Return)
MIRR (Modified Internal Rate of Return)
**WACC (Weighted Average Cost of Capital)**AAR (Average Accounting Return)

12. Which of the following is the return that firm’s creditors demand on new borrowings ?
Select correct option:
**Cost of debt**Cost of preferred stock
Cost of common equity
Cost of retained earnings

13.In which type of projects, the unequal lives of the projects do affect the analysis ?
Select correct option:
Mutually exclusive
Dependent
**Independent**Correlated

14.Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?
Select correct option:
10.63%
20.20%
35.12%
41.30%

15.Which of the following is known as the group of assets such as stocks and bonds held by an investor ?
Select correct option:
Stock Bundle
Portfolio
Capital Structure
None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:
Select correct option:
2.6 Years
3.1 Years
3.7 Years
4.1 Years

17. find the cash cycle inventory period is 38 days account payabel period is 50 days and average accoun receivable period is 30 days

a.68

**b 18**

c 80

d 118

|  |
| --- |
| ***Choose the Most Appropriate Answer among the given choices.*** |
| **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 %
 |

***Choose the Most Appropriate Answer among the given choices.***

**1. In the formula ke >= (D1/P0) + g, what does (D1/P0) represent?**

**A.** The expected capital gains yield from a common stock

**B. The expected dividend yield from a common stock**

**C.** The dividend yield from a preferred stock

**D.** The interest payment from a bond

**2. If you owned 100 shares of a company and there are three directors to be elected.**

**How much votes you would have as per cumulative voting procedure?**

**A.** 100 Votes

**B.** 200 Votes

**C. 300 Votes**

**D.** 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If**

**this policy is to continue indefinitely, what will be the value of a share of stock at a**

**15% required rate of return?**

**A.** Rs. 30

**B. Rs. 40**

**C.** Rs. 50

**D.** Rs. 60

**4. Which of the following is NOT a characteristic of preferred stock?**

**A. Dividends on these stocks cannot be cumulative**

**B.** These stocks have dividend priority over common stocks

**C.** These stocks have stated liquidating value

**D.** These bonds hold credit ratings much like bonds

**5. A project has an initial investment of Rs. 400,000. What would be the NPV for the**

**project if it has a profitability index of 1.15?**

**A.** Rs. 30000

**B.** Rs. 40,500

**C.** Rs. 50,000

**D. Rs. 60,000**

**6. What will be the proper order of completion regarding the capital budgeting**

**process?**

**( I ) Perform a post-audit for completed projects;**

**( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;**

**( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

**A.** II, V, III, IV, and I

**B.** III, II, V, IV, and I

**C. II, III, V, IV, and I**

**D.** II, III, IV, V, and I

**7. Following are the two cases:**

**Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a**

**project for ABC Company that the company is planning to undertake. He has**

**suggested that the project is feasible.**

**Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a**

**project for XYZ Company that the company is planning to undertake. He has**

**suggested that the project is not feasible.**

**The consultancy fee paid to Mr. A will be considered as:**

**A.** Sunk cost in Case I and opportunity cost in Case II

**B.** Opportunity cost in Case I and sunk cost in Case II

**C. Sunk Cost in both Case I and Case II**

**D.** Opportunity cost in both Case I and Case II

**8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price**

**is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will**

**be the total percentage return?**

**A.** 22.85 %

**B.** 25.16 %

**C.** 30.52 %

**D. 34.29 %**

**9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B**

**then what will be the weight of Asset B in your portfolio?**

**A.** 0.30

**B.** 0.40

**C. 0.60**

**D.** 0.75

**10. Which of the following set of cash flows represents the change in the firm’s total**

**cash flow that occurs as direct result of accepting the project?**

**A.** Relevant Cash Flows

**B. Incremental Cash Flows**

**C.** Negative Cash Flows

**D.** All of the given option

***Choose the Most Appropriate Answer among the given choices.***

**1. 2. Time value of money is an important finance concept because:**

**A.** It takes risk into account

**B.** It takes time into account

**C.** It takes compound interest into account

**D. All of the given options**

**2. The present value of a sum of Rs. 100 to be received in the future will be:**

**A.** More than Rs. 100

**B.** Equal to Rs. 100

**C. Less than Rs. 100**

**D.** None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the**

**next 20 years. You expect annual interest rates will be 8 percent over that time**

**period. The maximum price you would be willing to pay for the annuity will be**

**closest to:**

**A. Rs. 29,454**

**B.** Rs. 34,325

**C.** Rs. 39,272

**D.** Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four**

**different compounding methods for interest, which method should you choose to**

**maximize your Rs. 1,000?**

**A.** Compounding quarterly

**B. Compounding monthly**

**C.** Compounding semi-annually

**D.** Compounding annually

**5. If a bond sells at a high premium, then which of the following relationships hold**

**true?**

**A.** Bond Price < Par Value and YTM > coupon rate

**B.** Bond Price > Par Value and YTM > coupon rate

**C. Bond Price > Par Value and YTM < coupon rate**

**D.** Bond Price < Par Value and YTM < coupon rate

**6. What will be the value to you of a Rs. 2,000 face-value bond with an 8% coupon**

**rate when your required rate of return is 12% and time till maturity is 5 years?**

**A.** Rs. 1,556

**B. Rs. 1,712**

**C.** Rs. 2,082

**D.** Rs. 2,420

**7. Which of the following carry the provision that within a stipulated time period,**

**the bond may be converted into a certain number of shares of the issuing**

**corporation's common stock at a pre-stated price?**

**A. Convertible Bonds**

**B.** Income Bonds

**C.** Put Bonds

**D.** None of the given options

**8. Interest rates and bond prices :**

**A.** Move in the same direction

**B. Move in the opposite direction**

**C.** Sometimes move in the same and sometimes in the opposite direction

**D.** Have no relation with each other

**9. Long-term bonds have \_\_\_\_\_\_\_\_\_ risk of loss resulting from changes in interest**

**rates than do short-term bonds.**

**A.** Less

**B.** Zero

**C. More**

**D.** None of the given options

**10. What will be real rate if the nominal rate is 17%, and the inflation rate is 5% ?**

**A.** 6.639%

**B.** 8.251%

**C.** 10.00%

**D. 11.43%**

Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time

|  |
| --- |
| Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ? |
| **Select correct option:** |
|  |
|

|  |  |
| --- | --- |
|  | Sunk |
|  | Opportunity |

 |

**Highlight the correct option:**

1. The alternative name used for Interest Coverage Ratio is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. Time interest earned
3. Cash coverage ratio
4. Profit margin ratio
5. None of the given option
6. If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
7. Return on short as well as long term investments
8. Return on equity and return on debt
9. Return on equity and profit margin
10. All of the given options
11. Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
12. Increase
13. Decrease
14. Remain unchanged
15. None of the given option
16. Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_?
17. 0.38 times
18. 0.58 times
19. 0.78 times
20. 0.98 times
21. What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
22. Rs. 2.5 million
23. Rs. 3 million
24. Rs. 3.5 million
25. Rs.4.5 million
26. Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
27. 9.414 %
28. 10.414 %
29. 11.412 %
30. 12.414 %
31. Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
32. Rs.150 millions
33. Rs.250 millions
34. Rs.350 millions
35. Rs.500 millions
36. Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
37. 12.29%
38. 14.29%
39. 16.29%
40. 18.92%
41. What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
42. 25 %
43. 35 %
44. 29%
45. 45%
46. Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

a. Rs.251.415 millions

b. Rs.261.415 millions

c. Rs.271.415 millions

d. Rs.281.415 millions

*Choose and highlight the right option:*

1. ***ROE in DuPont identity is affected by:***
	1. ***Operating efficiency***
	2. ***Asset usage efficiency***
	3. ***Financial leverage***
	4. *All of the given options*
2. ***A decrease in the percentage of net income paid out as a dividend, will increase the:***
	1. ***Return on assets ratio***
	2. *Retention ratio*
	3. ***Leverage ratio***
	4. ***Profit margin***
3. ***Which of the following*** *does not* ***change Current ratio of a business:***
	1. ***Efficient usage of current assets***
	2. ***Change in the nature of the firm***
	3. ***Change in Accounting method of the firm***
	4. *Change in the management of the firm*
4. ***Present value factor is:***
	1. ***(1+r) t***
	2. ***(1-r) t***
	3. *1/ (1+r) t*
	4. ***1/ (1+r) 1/t***
5. ***Depreciation expense is:***
	1. *Operating expense*
	2. ***Investing expense***
	3. ***Financing expense***
	4. ***All of the given options***
6. ***Internal growth rate tell how rapidly:***
	1. *The firm grows*
	2. ***Sales of the firm grows***
	3. ***Profit of the firm grows***
	4. ***None of the given options***
7. ***You can determine the number of periods (n) in a present value calculation, if you know:***
	1. ***Future amount***
	2. ***Present value***
	3. ***Interest rate***
	4. *All of the given options*
8. ***Which one of the present value factor is larger?***
	1. [*PV of 1 factor for 10%*](http://www.accountingcoach.com/online-accounting-course/80Dpg01.html##)
	2. [***PV of 1 factor for 12%***](http://www.accountingcoach.com/online-accounting-course/80Dpg01.html##)
	3. ***Both have the same effect***
	4. ***It cannot be determined***
9. ***If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?***
	1. ***5.27 years***
	2. ***6.27 years***
	3. *7.2 7 years*
	4. ***7.57 years***
10. ***The future value of first Rs. 100 in 2 years at 8% discount is:***
	1. *Rs. 116.64*
	2. ***Rs. 111.64***
	3. ***Rs. 164.64***
	4. ***Rs. 164.61***

*Total marks: 10*

1. ***Investing activities include:***
	1. ***Purchase of property, plant and equipment***
	2. ***Cash received from the issuance of stock or equity in the business.***
	3. ***Purchases of stock or other securities (other than cash equivalents)***
	4. *Both a & c*
2. ***Changes in cash from financing are "cash in" when:***
	1. *Capital is raised*
	2. ***Assets increased***
	3. ***Liabilities decreased***
	4. ***Cash withdrawn***
3. ***Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:***
	1. *Cash from operations activities*
	2. ***Cash from financing activities***
	3. ***Cash from investing activities***
	4. ***None of the given options***
4. ***\_\_\_\_\_\_\_\_\_are short-term, temporary investments that can be readily converted into cash.***
	1. ***marketable securities***
	2. ***Cash equivalents***
	3. ***Treasury bills***
	4. *All of the given options*
5. ***The Cash flow statement records your\_\_\_\_\_\_\_\_\_ and expenditure at the end of the 'forecast' period.***
	1. *Actual**cash income*
	2. ***Un earned income***
	3. ***Coming year income***
	4. ***Last year’s income***
6. ***Ratios look at the relationships between individual values and relate them to how a company:***
	1. ***Has performed in the past***
	2. ***Might perform in the future***
	3. *Both a & b*
	4. ***None of the given options***
7. ***The current ratio is also known as:***
	1. *Working capital ratio*
	2. ***Leverage ratio***
	3. ***Turnover ratio***
	4. ***None of the given options***
8. ***\_\_\_\_\_\_\_\_\_\_is concerned with the relationship between the long terms liabilities that a business has and its capital employed.***
	1. *Gearing*
	2. ***Acid test ratio***
	3. ***Working capital management***
	4. ***All of the given options***
9. ***\_\_\_\_\_\_\_\_\_\_\_\_give a picture of a company's ability to generate cash flow and pay it financial obligations:***
	1. ***Management ratios***
	2. ***Working capital ratios***
	3. ***Net profit margin ratios***
	4. *Solvency Ratios*
10. ***Balance sheet items expressed as percentage of:***
	1. ***Net sales***
	2. ***Total revenue***
	3. *Total assets*
	4. ***Total liabilities***

**1. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate a purchase price. Identify the parties to this transaction from the given options, keeping in view the agency theory:**

1. **Ann is the principal and Mary is the agent.**
2. Mary is the principal and Ann is the agent.
3. Ted is the agent and Ann is the principal.
4. Mary is the principal and Ted is the agent.

**2. Which of the given options apply to auction markets?**

1. **Trading in a given auction exchange takes place at a single site on the floor of the exchange.**
2. **Transaction prices of shares are communicated almost immediately to the public.**
3. **Listing.**
4. **All of the given options (a, b and c).**

3. Suppose a Corporation has a taxable income of $200,000 and the tax amount is as given in the calculations:

$ 50,000 x 15% = $ 7,500

($ 75,000 – 50,000) x 25% = 6,250

($ 100,000 – 75,000) x 34% = 8,500

($ 200,000 – 100,000) x 39% = 39,000

$ 61,250

Total tax is $61,250.

Average tax rate is $61,250 / 200,000 = 30.625%. Marginal tax rate will be:

1. 39%
2. 34%
3. 15%
4. 25%

4.A document that includes corporation’s name, intended life, business purpose and number of shares and is necessary to form a corporation is known as:

1. **Charter**
2. Set of bylaws
3. Regulations paper
4. None of the given options

**5. According to the accounting profession, which of the given options would be considered a cash-flow item from an "investing" activity in a cash flow statement?**

1. Cash outflow to the government for taxes.
2. Cash outflow to shareholders as dividends.
3. Cash outflow to lenders as interest.
4. **Cash outflow to purchase bonds issued by another company**

**6. Which one of the given options is generally considered the most liquid asset?**

1. **accounts receivable**
2. inventory
3. net fixed assets
4. intangible assets

**7. Which of the given options is an advantage of a corporation that is *not* an advantage as a limited partner in a partnership?**

1. Limited liability.
2. **Easy transfer of ownership position.**
3. Double taxation.
4. All of the options are advantages that the corporation has over the limited partner.

**8. In finance we refer to the market for relatively long-term financial instruments as the \_\_\_\_\_\_\_\_\_\_ market.**

1. money
2. **capital**
3. primary
4. secondary

**9. \_\_\_\_\_\_\_\_\_\_ is concerned with the branch of economics relating the behavior of principals and their agents.**

1. Financial management
2. Profit maximization
3. **Agency theory**
4. Social responsibility

**10. Which of the expenses in given options is not a cash outflow for the firm?**

1. **Depreciation**
2. Dividends
3. Interest payments
4. Taxes
5. A standardized financial statement presenting all items of the statement as a percentage of total is:
6. **a common-size statement**
7. an income statement
8. a cash flow statement
9. a balance sheet

**2. Ammar is running a company ‘Ammar & Co’. He has asked you to comment on company’s ability to pay its bills over the short run without undue stress. For this purpose you will study which category of ratios of the company?**

1. **Profitability Ratios**
2. **Liquidity ratios**
3. **Debt ratios**
4. **Turnover ratios**

3. Which one of the given options describes desirable current ratio for a business?

1. **0**
2. 0.2
3. 0.1
4. At least one

**4. Interest Coverage Ratios are also known as:**

1. **Times Interest Earned (TIE) Ratios**
2. Liquidity Ratios
3. Debt Ratios
4. Asset Management Ratios

**5. The Du Pont Identity tells us that Return on Equity is affected by:**

1. **operating efficiency (as measured by profit margin)**
2. **asset use efficiency (as measured by total assets turnover)**
3. **financial Leverage (as measured by equity multiplier)**
4. all of the given options (a, b and c)

6. Benchmarking is used to establish a standard to follow for:

1. **comparison**
2. identification
3. calculation
4. liability

7. A series of constant cash flows that occur at the end of each period for some fixed number of periods is .

1. an ordinary annuity
2. annuity due
3. multiple cash flows
4. perpetuity

8. Suppose the total cost of a college education will be $50,000 in 12 years for a child. The Parents have $5,000 to invest today. What rate of interest must they earn on investment to cover the cost of child’s education?

1. **21.15%**
2. 12%
3. 18%
4. **30%**

**9. If the bank loans out $10,000 for 90 days at 8% simple interest, the PV is:**

1. $9,806.56
2. $9000
3. $10000
4. $9500

**10. Suppose, you deposited an amount of Rs.1000 in Habib Bank at the start of year 2006. How much interest amount will you have at the end of the year if the bank pays simple interest @10% p.a.?**

1. Rs.100
2. Rs.10
3. Rs.90
4. Rs.1000

|  |
| --- |
| **2. \_\_\_\_\_\_\_\_\_\_\_\_ can be considered as a snapshot of a company's financial position?** |
| 1. Income Statement
2. **Balance Sheet**
3. Cash Flow Statement
4. Owner's Equity Statement
 |
| **3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_ involves the sale of used securities from one investor to another?** |
| 1. Primary Market
2. **Secondary Market**
3. Tertiary Market
4. None of the given options
 |
| **4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?** |
| 1. **Liquidity**
2. Financial Leverage
3. Profitability
4. Market Value
 |
| **5. The process of planning and managing a firm's long-term investments is called:** |
| 1. Planning Process
2. Capital Structure
3. **Capital Budgeting**
4. Managing Process
 |
| **6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:** |
| 1. 6.37 %
2. 8.37 %
3. **15.7 %**
4. 12.5 %
 |
| **7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:** |
| 1. 8 times
2. **9 times**
3. 10 times
4. 11 times
 |
| **8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :** |
| 1. **Total Assets**
2. Total Liabilities
3. Total Capital
4. Net Profit
 |
| **9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:** |
| 1. Sole Proprietorship
2. Partnership
3. **Corporation**
4. None of the given options
 |
| **10. Which one of these is considered as a non-cash item?** |
| 1. Inventory
2. Accounts Payable
3. Accounts Receivable
4. **Depreciation**
 |

Question No: 1 ( Marks: 1 ) - Please choose one

The accounting definition of income is:

►Income = Current Assets -Current Liabilities

►Income = Fixed Assets - Current Assets

►Income = Revenues - Current Liabilities

►Income = Revenues - Expenses pg 17

Question No: 2 ( Marks: 1 ) - Please choose one

What would be the capital spending for an organization who has purchased fixed assets of Rs. 200,000 and sold fixed assets of Rs. 45,000?

►Rs. 245,000

►Rs. 200,000

►Rs.1 55 , 0 0 0

►Rs. 45,000

200000-

45000=155000

Question No: 3 ( Marks: 1 ) - Please choose one

Selected information from SNT Company's accounting records is as follows:
 o Cash paid to retired common shares Rs. 15,000

o Proceeds from issuance of preferred shares Rs. 20,000 o Cash dividends paid Rs. 8,000

o Proceeds from sale of equipment Rs. 25,000

On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

►Rs. 3,000 net cash inflow
►Rs. 3,000 net cash outflow

►Rs. 8,000 net cash inflow

►Rs. 8,000 net cash inflow

Question No: 4 ( Marks: 1 ) - Please choose one

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the
company?

►Rs. 45,000

►Rs. 15,000

► ( R s . 4 5 ,0 0 0 )
►( Rs. 15,000)

Question No: 5 ( Marks: 1 ) - Please choose one

Which of the following would not improve the current ratio?

►Borrow short-term to finance additional fixed assets

►Issue long-term debt to buy inventory

►Sell common stock to reduce current liabilities ►Sell fixed assets to reduce accounts payable

Question No: 6 ( Marks: 1 ) - Please choose one

Which of the following are incorporated into the calculation of the Du -Pont Identity?

I. Return on assets II.
Equity Multiplier

III. Total Assets Turnover
IV. Profit Margin

►I, II, and III only
►I, III, and IV only

► II, III and IV only pg 45

►I, II, III, a n d IV

Question No: 7 ( Marks: 1 ) - Please choose one

The concepts of present value and future value are:

►Directly related to each other

►Not related to each other

►Proportionately related to each other

►Inversely related to each other

Question No: 8 ( Marks: 1 ) - Please choose one

Which of the following is a special case of annuity, where the stream of cash flows continues forever?

►Special Annuity

►Ordinary Annuity

►Annuity Due

►Perpetuity

Question No: 9 ( Marks: 1 ) - Please choose one

Which of the following is an unsecured bond for which no specific pledge of property is made?

►Mortgage

►Debenture
►Collateral

►Note Payable

Debenture is an unsecured bond
for which no specific pledge of
property is made

Question No: 10 ( Marks: 1 ) - Please choose one

Which of the following type of return refers to the percentage change in the amount of money you have?

►Nominal return

►Real return

►Inflation return

►None of the given option

Your nominal return is the

percentage change in the amount
of money you have.

Question No: 11 ( Marks: 1 ) - Please choose one

When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

►Low; higher

►High; lower

►High; higher

►None of the given options

When real rate is high, all interest
rates will tend to be higher and
vice versa.

Question No: 12 ( Marks: 1 ) - Please choose one

Which of the following is the extra yield that investors dem and on a taxable bond as a compensation for the unfavorable tax treatment?

►Interest rate risk premium

►Inflation risk premium
►Default risk premium

►Taxability premium

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax
 treatment, known as

taxability premium

Question No: 13 ( Marks: 1 ) - Please choose one

In which type of the market, previously issued securities are traded among investors ?

►Primary Market

►Secondary Market pg 100

►Tertiary Market

►None of the given options

Secondary Market

The market in which previously
issued securities are traded among

investors

Question No: 14 ( Marks: 1 ) - Please choose one

Place the following items in the proper order of completion regarding the capital budgeting process.

(I) Perform a post-audit for completed projects; (II) Generate project proposals;

(III) Estimate appropriate cash flows; (IV)
Select value-maximizing projects; (V)
Evaluate projects.

►II, V, III, IV, and I
►III, II, V, IV, and I

►II, III, V, IV, and I

►II, III, IV, V, and I

http://wps.pearsoned.co
.uk/wps/grader

Question No: 15 ( Marks: 1 ) - Please choose one

An investment w ill be \_\_\_\_\_\_\_\_\_\_\_ if the IRR doesn’t exceed s the required return and \_\_\_\_\_\_\_\_\_\_\_ otherwise.

►Accepted; rejected
►Accepted; accepted
►Rejected; rejected

►Rejected; accepted pg 109

Question No: 16 ( Marks: 1 ) - Please choose one

IRR and NPV rules always lead to identical decisions as long as :

►Cash flows are conventional

►Cash flows are independent

►Cash flows are both conventional and independent

►None of the given options

Question No: 17 ( Marks: 1 ) - Please choose one

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

►A mutually exclusive project

►An independent project
►A dependent project
►A contingent project

Question No: 18 ( Marks: 1 ) - Please choose one

Finding Net Present Value comes under which type of capital budgeting criteria
?

►Discounted Cash Flow Criteria pg 118

►Accounting Criteria

►Payback Criteria

►None of the given options

Question No: 19 ( Marks: 1 ) - Please choose one

\_\_\_\_\_\_\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by

the decision under consideration.

►Sunk

►Opportunity
►Fixed

►Variable

Question No: 20 ( Marks: 1 ) - Please choose one

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock ?

►WACC (Weighted Average Cost of Capital)

►AAR (Average Accounting Return)
►IRR (Internal Rate of Return)

►MIRR (Modified Internal Rate of Return)

Question No: 21 ( Marks: 1 ) - Please choose one

Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

►Sunk cost

►Opportunity cost

►Both sunk cost and opportunity cost
►Neither sunk cost nor opportunity cost

Question No: 22 ( Marks: 1 ) - Please choose one

The current price of SNT stock is Rs. 50. Dividends are expected to grow at 7 percent indefinitely and the most current dividend was Rs. 1.00. What is the

required rate of return on SNT stock?

►9.00 percent

►9.14 percent

►9.33 percent

►10.65 percent

Question No: 23 ( Marks: 1 ) - Please choose one

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

►The right to vote for directors

►The right to share proportionately in dividend paid

►The right to vote on stockholder matters of great importance ►All of the given options

Question No: 24 ( Marks: 1 ) - Please choose one

Which one of the following typically applies to preferred stock but not to common stock?

►Dividend yield

►Cumulative dividends

►Voting rights

►Tax deductible dividends

Question No: 25 ( Marks: 1 ) - Please choose one

You must own which of the following to vote against a merger proposal from another corporation?

►Preferred share
►A debenture

►Common stock

►Cumulative dividend stock

Question No: 26 ( Marks: 1 ) - Please choose one

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

►To maintain a high ratio of current assets to sales

►To maintain a low ratio of current assets to sales

►To maintain less short-term debt and more long-term debt ►To maintain more short-term debt and less long-term debt

Size of investments in current assets

•Flexible policy

•maintain a high ratio of current assets to sales

•Restrictive policy

•maintain a low ratio of current assets to sales Financing of current assets

•Flexible policy

•less short-term debt and more long-term debt

•Restrictive policy

•more short-term debt and less long-term debt
 If policies

Question No: 27 ( Marks: 1 ) - Please choose one

Which of the following strategy belongs to flexible policy regarding financing of

current assets ?

►To maintain a high ratio of current assets to sales
►To maintain a low ratio of current assets to sales

►To maintain less short-term debt and more long-term debt

►To maintain more short-term debt and less long-term debt

Question No: 28 ( Marks: 1 ) - Please choose one

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

►Rs. 4,000

►+ Rs. 2,000
►Rs. 2,000
►+ Rs. 4,000

Question No: 30 ( Marks: 1 ) - Please choose one

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

►Stock Bundle

►Portfolio

►Capital Structure

►None of the given options

Question No: 31 ( Marks: 1 ) - Please choose one

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

►Probability distribution

►The expected return

►The standard deviation
►Coefficient of variation

Question No: 32 ( Marks: 1 ) - Please choose one

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45.
During the past year the common stock paid an annual dividend of Rs. 2.40. The
firm sold the stock today for Rs. 80. What is the rate of return the firm has
earned?

►5.3%

►194.2%

►83.11%
►94.2%

Question No: 33 ( Marks: 1 ) - Please choose one

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over
the last year, he received a dividend of Rs. 2 per share. At the end of the

year, the stock sells for Rs. 25. As per given information, what will be his total percentage return ?

►10 %

►20 %

►35 %

►45 %

Dividend yield= 2/20=0.1%

Capital gain yield =(25-20)/20=0.25%

Total percentage return 0.1+0.25\*100=35%

Question No: 34 ( Marks: 1 ) - Please choose one

While performing the feasibility analysis for a project, an operating cash flow of Rs.

225,000 has been calculated. Net working cap ital has declined by Rs. 40,000. There w as a net capital sp ending of Rs. 100,000 d u ring the year. What w ill be the
total cash flow for the project?

►Rs. 85,000

►Rs. 165,000

►Rs. 285,000

►Rs. 365,000

Operating cash
flow - change in
NWC - Capital
spending

225000-(-40000)-
100000=165000

Question No: 35 ( Marks: 1 ) - Please choose one

The total market value of a company s stocks is calculated as Rs. 250 million and the total market value of the company s debt are calculated as Rs. 150 million.
What percent of the firm s financing is debt?

►37.50%

►50.00%

►62.50%

►70.00%

250+150=400
250/400=0.625

0.625\*100=62.5 is equity and
100-62.5=37.5 is debt

Question No: 36 ( Marks: 1 ) - Please choose one

Suppose a firm borrow s Rs. 800,000 at 7%. What w ill be the after -tax interest rate if tax rate is 34%?

►3.00%

►4.62%

►5.20%

►8.00%

RD x (1

- TC).

7%X(1-

0.34)=4
.62

Question No: 37 ( Marks: 1 ) - Please choose one

Opportunity losses from having inadequate inventory are termed as:

►Carrying costs

►Opportunity costs
►Restocking costs

►Safety reserve costs

Restocking costs - costs of placing an order with suppliers or the cost of setting up a production
run

•Safety reserve costs - opportunity losses from having inadequate inventory e.g. lost sales and goodwill

•A trade-off

•Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

•The goal of inventory

management is to minimize
the sum of these two costs

Question No: 38 ( Marks: 1 ) - Please choose one

What w ill be the Economic Order Quantity (EOQ) if total u nit sales (T) = 400, fixed costs (F) = Rs. 30 and carrying costs (CC) = Rs. 5 ?

►65 units

►69 units

►89 units

►95 units

EOQ = (2T x F
/ CC)1/2

2\*400=800

800\*30=24000
24000/5=4800
4800^0.5=69.28

Question No: 39 ( Marks: 1 ) - Please choose one

The cost of common equity for a firm is:

►The required rate of return on the company's stock ►The yield to maturity on the bond

►The risk-free rate

►The market risk premium

Question No: 40 ( Marks: 1 ) - Please choose one

A firm has 3 million in comm on stock, 1 million in preferred stock and 2 million in debt. What is the percentage of firm s financing that is debt ?

►20%

►33%
►40%

►67%

Question No: 41 ( Marks: 1 ) - Please choose one

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the
total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

►Rs. 20,350
►Rs. 30,919

►Rs. 36,919

►Rs. 80,350

50350-30000=20350x34%=6919
30000+6919=36919

Question No: 42 ( Marks: 1 ) - Please choose one

What w ill be the variance if standard deviation for the returns of an investment is

0.2829 ?

►0.0800

►0.0892

►0.5319

►Cannot be estimated without more information

Which of the following is the difference between current assets and current? Liabilities?

►Surplus Asset

►Short-term Ratio

►Working Capital

►Current Ratio

Question No: 2 ( Marks: 1 ) - Please choose one

A business owned by a single person is known as:

►Sole-proprietorship

►General partnership
►Limited partnership

►Corporation

Question No: 3 ( Marks: 1 ) - Please choose one

In a common-size balance sheet, all items are shown as a percentage of:

►Total Assets

►Total Liabilities

►TotalOwnersEquity

►None of the given options

Question No: 4 ( Marks: 1 ) - Please choose one

A company's ability to meet long-term obligations can be estimated by using

which of the following set of ratios?

►Liquidity Ratio

►Solvency Ratios
pg 34

►Asset Management Ratios
►Market Value Ratios

Question No: 5 ( Marks: 1 ) - Please choose one

According to Du Pont Identity, ROE is affected by which of the following?

►Operating efficiency

►Asset use efficiency
►Financial Leverage

►All of the given options

The Du Pont identity tells us that ROE is affected by three things:
Operating efficiency (as measured by profit margin)
Asset use efficiency (as measured by total assets turnover)

Financial Leverage (as

measured by equity multiplier)

Question No: 6 ( Marks: 1 ) - Please choose one

Which of the following is a series of constant cash flows that occur at the end of? each period for some fixed number of periods?

►Ordinary annuity

►Annuity due

►Perpetuity

►None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of

periods is called an ordinary

Annuity

Question No: 7 ( Marks: 1 ) - Please choose one

A portion of profits, which a company distributes among its shareholders, is known as:

►Dividends

►Retained Earnings

►Capital Gain

►nterest

Question No: 8 ( Marks: 1 ) - Please choose one

What amount a borrower would pay at the end of fourth year with a 4 -year, 12%, interest-only loan of Rs. 3,000?

►Rs. 360

►Rs. 2,000
►Rs. 3,000
►Rs. 3,360

Question No: 9 ( Marks: 1 ) - Please choose one

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

►3 percent

►6 percent
►9 percent
►12 percent

Question No: 10 ( Marks: 1 ) - Please choose one

Given two bonds identical but for maturity, the price of the longer-term bond will change \_ \_ \_ \_ \_ \_ \_ \_ that of the shorter-term bond, for a given change in market interest rates.

►More than

►Lessthan
►Equal to

►None of the given options

Question No: 11 ( Marks: 1 ) - Please choose one

When corporations borrow, they generally promise to:

I. Make regular scheduled interest payments

II. Give the right of voting to bondholders

III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

►I and II

►I and III pg
77

►II and IV

►I, III, and IV

Question No: 12 ( Marks: 1 ) - Please choose one

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

►Repayment
►Seniority

►Call provision

►Protective covenants

Question No: 13 ( Marks: 1 ) - Please choose one

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this

policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

►Rs. 30

►Rs. 45

►Rs. 60

►Rs. 75

9/0.12=75

Question No: 14 ( Marks: 1 ) - Please choose one

In which type of the market, previously issued securities are traded among investors ?

Primary Market

Secondary Market

Tertiary Market

None of the given options

Question No: 15 ( Marks: 1 ) - Please choose one

An investment should be accepted if the net present value is \_\_\_\_\_\_\_\_\_\_ and rejected if it is \_\_\_\_\_\_\_\_.

Positive; positive

Positive; negative

Negative; negative
Negative; positive

Question No: 16 ( Marks: 1 ) - Please choose one

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

Question No: 17 ( Marks: 1 ) - Please choose one

Which of the following statement is INCORRECT regarding a normal project ?

If the IRR of a project is greater than the discount rate, k, then its PI will be

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate, k, greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

Question No: 18 ( Marks: 1 ) - Please choose one

Which of the following set of cash flows represent the change in the firm s total cash flow that occurs as direct result of accepting the project ?

Relevant Cash Flows

Incremental Cash Flows
Negative Cash Flows
All of the given options

Question No: 19 ( Marks: 1 ) - Please choose one

Which of the following is NOT a problem while determining incremental cash flows?

Merchandize cost

Sunk cost

Opportunity cost

None of the given options

Question No: 20 ( Marks: 1 ) - Please choose one

\_\_\_\_\_\_\_\_\_\_\_ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

Sunk

Opportunity
Fixed

Variable

Question No: 21 ( Marks: 1 ) - Please choose one

The overall (weighted average) cost of capital is composed of a weighted average

of :

The cost of common equity and the cost of debt pg
146

The cost of common equity and the cost of preferred stock The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question No: 22 ( Marks: 1 ) - Please choose one

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative pg100

These stocks hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

Question No: 23 ( Marks: 1 ) - Please choose one

Mr. A, as a financial consultant, has prepared a feasibility report of a project for

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

Sunk cost

Opportunity cost

Both sunk cost and opportunity cost
Neither sunk cost nor opportunity cost

Question No: 24 ( Marks: 1 ) - Please choose one

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero
All of the given options

Question No: 25 ( Marks: 1 ) - Please choose one

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

Average Accounting Return

Average Accounting Return

•AAR is a measure of accounting profit relative to book value

•AAR rule is to take an investment

if its AAR exceeds a benchmark
AAR

Question No: 26 ( Marks: 1 ) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition
3rd proposition

None of the given options

Question No: 27 ( Marks: 1 ) - Please choose one

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets
The firm s cost of debt

The firm s stockholders pg 153

The firm s debt-equity ratio

Question No: 28 ( Marks: 1 ) - Please choose one

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

Business Risk found
on internet

Functional Risk

None of the given options

Question No: 29 ( Marks: 1 ) - Please choose one

Which of the following type of risk influences a large number of assets ?

Systematic Risk

Unsystematic Risk
Diversifiable Risk
Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

•If we always receive exactly what we expect then the investment will be risk-free.

•Systematic Risk

•A risk that influences a

large number of assets. It is
also called market risk

Question No: 30 ( Marks: 1 ) - Please choose one

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate
Rise in Inflation

Strike call in a company pg
140

Question No: 31 ( Marks: 1 ) - Please choose one

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question No: 32 ( Marks: 1 ) - Please choose one

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share.

Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year,
what will be his total cash inflow ?

Rs. 100

Rs. 250

Rs. 1,000
Rs. 1,350

50\*20=1000
50\*25=1250
1250-1000=250

Question No: 33 ( Marks: 1 ) - Please choose one

While performing the feasibility analysis for a project, an operating cash flow of Rs.

250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What w ill be the total cash flow
for the project?

Rs. 170,000

Rs. 200,000

Rs. 215,000

Rs. 230,000
2050000-
(+50000)
200000

Question No: 34 ( Marks: 1 ) - Please choose one

Autos & computers are included in which of the following MACRS property

class?

3-year

5-year

7-year

None of the given options

3-year Equipment used in research
5-year Autos, Computers

7-year Most industrial equipment

Question No: 35 ( Marks: 1 ) - Please choose one

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What w ill be the cost of capital if the dividend s are estimated to
Grow steadily at 5%?

12.88%

13.07%

14.22%

15.00% pg
142

Question No: 36 ( Marks: 1 ) - Please choose one

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other lenders
The selling firm can engage in price discrimination
The selling firm can obtain favorable tax treatment

All of the given options

Trade Credit is more likely to be granted if:

•The selling firm has a cost advantage over other lenders.

•The selling firm can engage in price discrimination.

•The selling firm can obtain favorable tax treatment.

•The selling firm has no established reputation for quality products or services.

•The selling firm perceives a long-term strategic relationship.

•The optimal credit policy depends on the characteristics of particular firms.

•Excess capacity

Question No: 37 ( Marks: 1 ) - Please choose one

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

Rs. 1,940

Rs. 2,000
Rs. 2,100

Question No: 38 ( Marks: 1 ) - Please choose one

Shortage or Restocking costs with inventory

levels

Rise

Decline

Remain unaffected

None of the given options

Carrying costs increase with

inventory levels and shortage or
restocking costs decline with
inventory levels

Question No: 39 ( Marks: 1 ) - Please choose one

Which one of the following motives refers to the need for holding cash to satisfy norm al disbursement and collection activities associated with a firm s ongoing Operations?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

Speculative Motive - the need to hold cash to take advantage of additional investment opportunities,

such as bargain purchases, attractive interest rates and favorable exchange rater fluctuations.

•Reserve borrowing utility and Marketable securities

•Transaction Motive - the need to hold cash to satisfy normal disbursement and collection activities

associated with a firm’s
ongoing operations.

Question No: 40 ( Marks: 1 ) - Please choose one

What would be the standard deviationof returns for aninvestmentthat has a Variance of 0.008?

0.08944

0.09101

0.09487

0.10521

Question No: 41 ( Marks: 1 ) - Please choose one

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the that is debt ?

20%

33%

40%

67%

Question No: 42 ( Marks: 1 ) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders. Financial leverage refers to the extent to which a firm relies on the debt.

Financial leverage must affect the overall cost of capital in any condition. pg 149

Financial leverage may not affect the overall cost of capital.

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict
Interest Conflict

Agency Problem

None of the given options

The Agency Problem

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency

costs

Question No: 2 ( Marks: 1 ) - Please choose one

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

Analysis

Structuring

Budgeting

Liquidity pg 14

Question No: 3 ( Marks: 1 ) - Please choose one

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

Administrative expenses

Question No: 4 ( Marks: 1 ) - Please choose one

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier
Inventory turnover
Receivable turnover
Return on equity

Question No: 5 ( Marks: 1 ) - Please choose one

Which of the following is CORRECT regarding the present value discount factor?

It is always greater than 1.0

It decreases as the discount rate increases

It is equal to zero when discount rate is zero

It increases as the time period increases

Question No: 6 ( Marks: 1 ) - Please choose one

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341
Rs. 410
Rs. 452

Question No: 7 ( Marks: 1 ) - Please choose one

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate Convert each interest rate to a monthly nominal rate Convert each interest rate to an annual nominal rate Compare the published annual rates

Question No: 8 ( Marks: 1 ) - Please choose one

You have Rs. 1,0 0 0 to invest. You have 2 choices; first is the savings account A, which
earns 8.75 percent com pounded annually and second is the savings account B, which earns

8.50 percent com pounded monthly. Which account

should you choose and why?

Account A; because it has a higher effective annual rate

Account B; because it has a higher effective annual rate Account A; because it has the higher quoted rate Account B; because the quoted rate is higher

Question No: 9 ( Marks: 1 ) - Please choose one

What will be the value of a Rs. 1,0 0 0 face-value bond with an 8% coupon rate at

8% required rate of return?

More than its face value
Less than its face value
Equal to its face value

Cannot be determined without more information

Question No: 10 ( Marks: 1 ) - Please choose one

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders. pg
78

Corporations payment of interest on debt is fully tax deductible.

Question No: 11 ( Marks: 1 ) - Please choose one

The relationship between real and nominal returns is described by the:

M&M Proposition

Capital Asset Pricing Model

Fisher s Effect

BCG Matrix

Question No: 12 ( Marks: 1 ) - Please choose one

Investors dem and a higher yield as compensation to the risk of possible default. This extra premium is called:

Default risk premium

Taxability premium

Interest rate risk premium
Inflation risk premium

Question No: 13 ( Marks: 1 ) - Please choose one

For which type of stocks, the dividends grow at a constant rate?

Zero Growth Stocks pg 91

Constant Growth Stocks

Non-Constant Growth Stocks
None of the given options

Question No: 14 ( Marks: 1 ) - Please choose one

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

Straight Voting

Statutory Voting

Cumulative Voting

None of the given options

Question No: 15 ( Marks: 1 ) - Please choose one

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting
Cumulative Voting

None of the given options

Question No: 16 ( Marks: 1 ) - Please choose one

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

Strike Price pg 100

Complex Price

Question No: 17 ( Marks: 1 ) - Please choose one

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:

2.6 Years

3.1 Years

3.6 Years

4.1 Years

Question No: 18 ( Marks: 1 ) - Please choose one

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

Question No: 19 ( Marks: 1 ) - Please choose one

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)
Internal Rate of Return (IRR)

Profitability Index (PI) pg
119

Question No: 20 ( Marks: 1 ) - Please choose one

Which of the following set of cash flows should be considered in the decision at
hand?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows
All of the given options

Question No: 21 ( Marks: 1 ) - Please choose one

\_\_\_\_\_\_\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

Sunk

Opportunity
Fixed

Variable

Question No: 22 ( Marks: 1 ) - Please choose one

The overall (weighted average) cost of capital is composed of a weighted average

of :

The cost of common equity and the cost of debt

The cost of common equity and the cost of preferred stock The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

Question No: 23 ( Marks: 1 ) - Please choose one

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs.

1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

By 10 percent each year

At a constant rate

By a decreasing amount
At a decreasing rate

Question No: 24 ( Marks: 1 ) - Please choose one

Which of the following statement is INCORRECT regarding Average Accounting Return?

AAR is a rate that makes the NPV equal to zero

AAR is a measure of accounting profit relative to book value

An investment is acceptable if its AAR is greater than a benchmark AAR

None of the given options

worng questions

Question No: 25 ( Marks: 1 ) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition
3rd proposition

None of the given options

Question No: 26 ( Marks: 1 ) - Please choose one

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

18.33%

20.98%

25%/75%==0.33

16%+(16%-9%)x0.33

0.16+(0.16-0.09)x0.33

0.16+0.0231=18.31%

Question No: 27 ( Marks: 1 ) - Please choose one

Which of the following activities decreases cash ?

Increasing current liabilities

Decreasing long term debt

Decreasing fixed assets

Increasing equity

Activities that decrease cash (uses of cash)

•Decreasing long term debt

•Decreasing equity

•Decreasing current liabilities

•Increasing current assets other than cash

•Increasing fixed assets

Question No: 28 ( Marks: 1 ) - Please choose one

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

Operating Cycle

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

•It begins life as inventory

•Converted to a receivable when it is sold

•Converted to cash when we

collect from the sale

Question No: 29 ( Marks: 1 ) - Please choose one

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

Accounts receivable period pg 164

Collection period

Accounts payable period

Question No: 30 ( Marks: 1 ) - Please choose one

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

Question No: 31 ( Marks: 1 ) - Please choose one

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your

portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

Question No: 32 ( Marks: 1 ) - Please choose one

Which of the following statement(s) is (are) true regarding Return on Investment?

One of the responsibilities of the financial manager is to assess the value of the proposed investment

The return consists of income earned and capital gain

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

Question No: 33 ( Marks: 1 ) - Please choose one

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45.

During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

Question No: 34 ( Marks: 1 ) - Please choose one

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

Rs. 330,000

Rs. 470,000

Question No: 35 ( Marks: 1 ) - Please choose one

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

Rs. 70,000

RS 230000

Rs. 370,000
correct

Rs. 470,000
300000-

70000=230000

Question No: 36 ( Marks: 1 ) - Please choose one

Su p pose a firm borrow s Rs. 800,000 at 7%. What w ill be the total interest bill p er year if tax rate is 34% ?

Rs. 19,040

Rs. 36,960
Rs. 56,000

Rs. 800,000

800000\*7%=56000
56000\*34%=19040

Question No: 37 ( Marks: 1 ) - Please choose one

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

•Precautionary

Motive - the need to
hold cash as a safety
margin to act as a
financial reserve

Question No: 38 ( Marks: 1 ) - Please choose one

Suppose market value exceed s book value by Rs. 225,000. What w ill be the aftertax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

Rs. 148,500

Rs. 191,000

Rs. 225,000

225000\*34%=765,00

225000-765000=148500

Question No: 39

( Marks: 1 ) - Please choose one

Su p pose you have bou ght 100 shares of a corporation one year ago at Rs. 18 per share.

Over the last year, you have received a d ivid end of Rs. 2 p er share. At the end of the year, the stock sells for Rs. 27. As p er given inform ation, w hat w ill be

the capital gains yield?

15

%

25
%

35
%

50
%

(27-18)/18=0.5%

Question No: 40 ( Marks: 1 ) - Please choose one

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this
p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

Rs. 112,500

Rs. 337,500
Rs. 230,000

Question No: 41 ( Marks: 1 ) - Please choose one

Standard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B
Investment A is equally volatile to Investment B
Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question No: 42 ( Marks: 1 ) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders. Financial leverage refers to the extent to which a firm relies on the debt.

Financial leverage must affect the overall cost of capital in any condition.

Financial leverage may not affect the overall cost of capital.

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

a. Cash from operations activities

b. Cash from financing activities

c. Cash from investing activities

d. None of the given options

4. \_\_\_\_\_\_\_\_\_are short-term, temporary investments that can be readily converted

into cash.

a. marketable securities

b. Cash equivalents

c. Treasury bills

d. All of the given options

12

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

5. The Cash flow statement records your\_\_\_\_\_\_\_\_\_ and expenditure at the end of
 the 'forecast' period.

a. Actual cash income

b. Un earned income

c. Coming year income

d. Last year’s income

6. Ratios look at the relationships between individual values and relate them to
 how a company:

a. Has performed in the past

b. Might perform in the future

c. Both a & b

d. None of the given options

7. The current ratio is also known as:

a. Working capital ratio

b. Leverage ratio

c. Turnover ratio

d. None of the given options

8. \_\_\_\_\_\_\_\_\_\_is concerned with the relationship between the long terms liabilities
 that a business has and its capital employed.

a. Gearing

b. Acid test ratio

c. Working capital management

d. All of the given options

13

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

9. \_\_\_\_\_\_\_\_\_\_\_\_give a picture of a company's ability to generate cash flow and

pay it financial obligations:

a. Management ratios

b. Working capital ratios

c. Net profit margin ratios

d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

a. Net sales

b. Total revenue

c. Total assets

d. Total liabilities

1.The time between sale of inventory and collection of receivable.

**a account receivable**

b operation cycle

c inventory period

d none of above

2. allow a bank to substitute its creditworthiness for the customer, for a fee is called\_\_\_\_\_\_\_\_\_\_\_-

a open bank account

b commercial draft

c promisory note

**d banker accetptance**

**3.**Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :
Select correct option:
Investment A is less volatile than Investment B
Investment B is equally volatile to Investment A
**Investment A is more volatile than Investment B**Investment B is more volatile than Investment A

4. find the average 2%,5%,6%,8%

a 5%

**b 5.25 %**

c 6%

d 8%

5 what is standard deviation of thise averages 2%,5%, 7%

6.**As the dividend is always same for a zero growth stock, so the stock can also be viewed as**

**7.Which of the following statement shows revenue, expense, and net worth as of a specific date?**

a balance sheet

**b income statement**

c cashflow

d none of above

8. which of the following character is not a systematic risk

market risk

interest risk

inflation risk

**strike call in a company**

9. A company has a two director and 1 shareholder which hav 25 power of share the voter for director is

a 100

b150

**c50**

d25

10.**An investment will be *\_\_\_\_\_\_\_\_\_* if the IRR doesn’t exceeds the required return and *\_\_\_\_\_\_\_\_\_*** **otherwise.**Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected
**Rejected; accepted**

**11.** Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?
Select correct option:
IRR (Internal Rate of Return)
MIRR (Modified Internal Rate of Return)
**WACC (Weighted Average Cost of Capital)**AAR (Average Accounting Return)

12. Which of the following is the return that firm’s creditors demand on new borrowings ?
Select correct option:
**Cost of debt**Cost of preferred stock
Cost of common equity
Cost of retained earnings

13.In which type of projects, the unequal lives of the projects do affect the analysis ?
Select correct option:
Mutually exclusive
Dependent
**Independent**Correlated

14.Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?
Select correct option:
10.63%
20.20%
35.12%
41.30%

15.Which of the following is known as the group of assets such as stocks and bonds held by an investor ?
Select correct option:
Stock Bundle
Portfolio
Capital Structure
None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:
Select correct option:
2.6 Years
3.1 Years
3.7 Years
4.1 Years

17. find the cash cycle inventory period is 38 days account payabel period is 50 days and average accoun receivable period is 30 days

a.68

**b 18**

c 80

d 118

ACC 501 Quiz Conference This Mcqs for Final Term

1. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored
It fails to consider risk differences
Simple and easy to calculate

None of the given options pg 106

2. When a corporation wishes to borrow from public on a long-term basis, it does so by

issuing or selling:

Select correct option:

Debt securities or bonds pg 71

Common Stocks

Preferred Stock

All of the given options

3. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

Government bonds 85

Zero coupon bonds
Floating-rate bonds
Euro bonds

4. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.
 Select correct option:

Low; higher

High; lower

High; higher pg 88

None of the given options

5. Which of the following statements is(are) CORRECT regarding a bond?
 Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

All of the given options

6. Between the two identical bonds having different coupon, the price of the \_\_\_\_\_\_\_\_ bond
 will change less than that of \_\_\_\_\_\_\_\_ bond.

Select correct option:

Higher-coupon; lower-coupon
Lower-coupon; higher-coupon

Long-term; short-term

None of the given options

7. As the dividend is always same for a zero growth stock, so the stock can also be viewed as:
 Select correct option:

Ordinary Annuity
Annuity Due

Ordinary perpetuity pg 91

None of the given options

8. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:
 Select correct option:

Float

Collar pg 86

Limit

Surplus

9. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

Simple Interest Rate

Compound Interest Rate

Economic Rate of Return

Required Rate of Return

10. If the dividend for a share is growing at a steady rate then which of the following
 formula(s) can be used to find the dividend in two periods?

Select correct option:

D2 = D1 x (1 + g )
D2 = Do x ( 1 + g )2
D2 = Do x ( 1 + g )2

All of the given options pg 92

11. A project whose acceptance does not prevent or require the acceptance of one or more
 alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

independent project

dependent project
contingent project

12. A project has an initial investment of Rs. 600,000. What would be the NPV for the project
 if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000
Rs. 65,000

Rs. 72,000

Reference=600000\*1.12=672000-600000=72000

13. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure. Pg 78

Debt provides the voting rights to the bondholders.

Corporation’s payment of interest on debt is fully taxable.

14. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an
 operating loss, the bond is most likely a(n) \_\_\_\_\_\_\_ bond.

Select correct option:

Income

Zero coupon
Floating-rate
Put

15. A \_\_\_\_\_\_ covenant limits or prohibits actions that company might take.

Select correct option:

Positive

Negative pg 80

Neutral

None of the given options

16. IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flow s are conventional
Cash flow s are independent

Cash flow s are both conventional and independent pg 110

None of the given options

17. Which of the following allows a company to repurchase part or all of the bond issue at a
 stated price?

Select correct option:
 Repayment

Seniority

Call provision

Protective covenants

18. Which of the following is NOT a quality of IRR?
 Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments pg 116

Easily communicated and understood

Can be estimated even without knowing the discount rate

19. In which type of the market, previously issued securities are traded among investors?
 Select correct option:

Primary Market

Secondary Market pg 100

Tertiary Market

None of the given options

20. A model which makes an assumption about the future growth of dividends is known as:
 Select correct option

Dividend Price Model

Dividend Growth Model

Dividend Policy Model
All of the given options

21. Which of the following represents the linear relation between Net Present Value (NPV) and
 Profitability Index (PI)?

Select correct option:

If Profitability Index > 1, NPV is Negative (-)
If Profitability Index < 1, NPV is Positive (+)

If Profitability Index > 1, NPV is Positive (+)

If Profitability Index > 1, NPV is Zero (0)

22. Which of the following comes under the head of discounted cash flow criteria for capital
 budgeting decisions?

Select correct option:
 Payback Period

Net Present Value pg 118

Average Accounting Return

23.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period pg 119

Net Present Value

Profitability Index

Internal Rate of Return

24. Which of the following is an example of positive covenant?
 Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

25. Which of the following is the most common capital budgeting technique?
 Select correct option:

Payback Period

Net Present Value

Internal Rate of Return
Profitability Index

26. Which of the following measures the present value of an investment per dollar invested?
 Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI) pg 119

27. Which of the following is a measure of accounting profit relative to the book value?
 Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

Average Accounting Return pg 119

28. Which one of the following typically applies to preferred stock but not to common stock?
 Select correct option:

Dividend yield

Cumulative dividends

Voting rights

Tax deductible dividends

29. Treasury notes and bonds are examples of which of the following types of bonds?
 Select correct option:

Government bonds pg 86

Zero coupon bonds

Floating-rate bonds
Euro bonds

30. Expectation of a \_\_\_\_ inflation rate will push long term interest rates \_\_\_\_ than short term
 rates reflected by an upward term structure.

Select correct option:

Lower; higher

Higher; lower

Higher; higher pg 88

None of the given options

31. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon
 payments of Rs. 60 are paid every 6 months?

Select correct option:

3 percent

6 percent
9 percent

12 percent

60+60=120/1000=12%

32. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs.
 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the
 project?

Select correct option:

2.00 Years

2.67 Years

3.00 Years

3.67 Years

Project=800 paid in 1 year=100, 2nd year=300 and 3rd year=400 total 800 paid in 3rd year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

Annuity due pg 66

Perpetuity

None of the given options

33. Which of the following is NOT an important feature of treasury notes and bonds?
 Select correct option:

Default free

Taxable

Least liquid pg 90

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

Internal rate of interest pg 88

Expected inflation

Interest rate risk

34. Which of the following is the amount of time required for an investment to generate cash
 flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity
Maturity Period

Payback period pg 104

Accounts Receivable period

m.q .z

35. In which type of the market, securities are originally sold to the investors?
 Select correct option:

Primary Market

Secondary Market
Tertiary Market

None of the given options

36. A \_\_\_\_\_\_\_\_\_ is an agent who arranges security transactions among investors.
 Select correct option:

Broker pg 100

Dealer

Member
Specialist

37. Which of the following is a characteristic of preferred stock?
 Select correct option:

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative pg 100

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

m.c.z.e

38. In which of the following procedure of voting for a company's directors, each shareholder
 is entitled to one vote per share?

Select correct option:

Straight Voting

Proportional Voting
Cumulative Voting

None of the given options

39. When the market's required rate of return for a particular bond is much less than its
 coupon rate, the bond is selling at:

Select correct option:

Premium

Discount
Par

Cannot be determined without more information

40. Which of the following type of bond pays no coupon at all and are offered at a price that is
 much lower than its stated value?

Select correct option:

Government bonds

Zero coupon bonds pg 85
Floating-rate bonds

Euro bonds

41. An investment will be \_\_\_\_\_\_\_\_\_ if the IRR doesn’t exceeds the required return and
 \_\_\_\_\_\_\_\_\_ otherwise.

Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected

Rejected; accepted pg 109 conceptual

42. Which of the following comes under the head of accounting criteria for capital budgeting
 decision?

Select correct option:
Payback Period

Net Present Value

Profitability Index

Average Accounting Return pg 119

43. Which of the following is a series of constant cash flows that occur at the end of each period
 for some fixed number of periods?

Select correct option:

Ordinary annuity pg 63
Annuity due

Perpetuity

None of the given options

44. Which of the following term refers to the difference between the present value of cash
 inflows and the present value of cash outflows?

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI)

45. One would be indifferent between taking and not taking the investment when:
 Select correct option:

NPV is greater than Zero

NPV is equal to Zero pg 104 doubt ask question in mdb NPV is less than Zero

All of the given options

46. Which one of the following terms refers to the risk arises for bond owners from fluctuating
 interest rates?

Select correct option:

Fluctuations Risk

Interest Rate Risk pg75

Real-Time Risk

Inflation Risk

47. All else equal, the market value of a corporate bond is always inversely related to its:
 Select correct option:

Time to maturity
Coupon rate

Yield to maturity

All of the given options

Date :25-11-2010

ACC 501 Quiz Conference lecture 1 to 18
 This Mcqs for Midterm

48. Which of the following issue is NOT covered by “Investment” area of finance?
 Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

49. Period costs include which of the following?
 Select correct option:

Selling expense

Raw material
Direct labor

Manufacturing overhead

50. Product costs include which of the following?
 Select correct option:

Selling expenses
General expenses

Manufacturing overhead

Administrative expenses

51. Financial policy is evaluated by which of the following?
 Select correct option:

Profit Margin

Total Assets Turnover

Debt-equity ratio

None of the given options

52. Cash flow from assets involves which of the following component(s)?
 Select correct option:

Operating cash flow
Capital spending

Change in net working capital

All of the given options

53. Which of the following refers to the cash flows that result from the firm’s day-to-day
 activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows
Financing Cash Flows
All of the given options

54. Finance is vital for which of the following business activity (activities)?
 Select correct option:

Marketing Research
Product Pricing

Design of marketing and distribution channels

All of the given options

55. Which of the following costs are reported on the income statement as the cost of goods sold?
 Select correct option:

Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

56. Standard Company had net sales of Rs. 750,000 over the past year. During that time,
 average receivables were Rs. 150,000. Assuming a 365-day year, what was the average
 collection period?

Select correct option:

5 days

36 days
48 days

73 days

750000/150000=5
365/5=73days

57. Which of the following terms refers to the use of debt financing?
 Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage
None of the given options

58. In which type of market, new securities are traded?
 Select correct option:

Primary market

Secondary market
Tertiary market

None of the given options

59. Which of the following ratios are particularly interesting to short-term creditors?
 Select correct option:

Liquidity Ratios

Long-term Solvency Ratios
Profitability Ratios

Market Value Ratios

60. shows the sources from which cash has been generated and how it has been spent during a
 period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner’s Equity Statement

61. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will
 be reported on the cash flow statement as a(n):

Select correct option:

Operating activity
Investing activity
Financing activity

None of the given options

62. me: Quick Ratio is also known as:
 Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

63. of the following statement measures performance over a specific period of time?
 Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

64. A portion of profits, which a company retains itself for further expansion, is known as:
 Select correct option:

Dividends

Retained Earnings
Capital Gain

None of the given options

65. Net Income after taxation differs from Net Cash Flow from operations because:
 Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement
Non-cash items are included in the Income Statement, but not in the Cash Flow Statement
Cash sales are shown in the Cash Flow Statement but not in the Income Statement
Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

66. Which of the following statement shows assets, liabilities, and net worth as of a specific
 date?

Select correct option:

Income Statement

Balance Sheet

Owner’s Equity Statement
Cash Flow Statement

67. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

68. Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

Cash Coverage Ratio

Cash Ratio

69. Which of the following ratio gives an idea as to how efficient management is at using its
 assets to generate earnings?

Select correct option:

Profit Margin

Return on Assets
Return on Equity

Total Assets Turnover

70. Which of the following is an example of capital spending?

Select correct option:

Purchase of Fixed Assets

Decrease in Net Working Capital
Increase in Net Working Capital
None of the given options

71. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency

Asset use efficiency
Financial policy
Dividend policy

72. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts

Auditors

Marketers

73. Which of the following set of ratios is used to assess a business's ability to generate earnings
 as compared to its expenses and other relevant costs incurred during a specific period of
 time?

Select correct option:

Liquidity Ratios
Leverage Ratios
Profitability Ratios

Market Value Ratios

74. A company having a current ratio of 1 will have \_\_\_\_\_\_\_\_\_\_ net working capital.

Select correct option:

Positive

Negative
zero

None of the given options

75. which of the following is not a form of business organization

Select correct option:

sole proprietorship
partnership

joint stock company

cooperative Society

76. Which of the following ratios are intended to address the firm’s financial leverage?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Asset Management Ratios
Profitability Ratios

77. The accounting definition of income is:

Select correct option:

Income = Current Assets - Current Liabilities
Income = Fixed Assets - Current Assets
Income = Revenues - Current Liabilities

Income = Revenues - Expenses

78. Which of the following item(s) is(are) not included while calculating Operating Cash
 Flows?

Select correct option:

Depreciation

Interest

Expenses related to firm’s financing of its assets

All of the given options

79. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax
 proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

Solution=250000\*34%=85000
250,000-85000=165000

80. When a corporation wishes to borrow from public on a long-term basis, it does so by
 issuing or selling:

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

81. Which of the following set of ratios is used to assess a business's ability to generate earnings
 as compared to its expenses and other relevant costs incurred during a specific period of
 time?

Select correct option:

Liquidity Ratios
Leverage Ratios
Profitability Ratios
Market Value Ratios

82. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

83. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

84. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

Depreciation

All of the given options

85. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

Rs. 100

Rs. 510
Rs. 1,000
Rs. 1,100

Solution:
=1000/10
=100

86. Which of the following comes under the head of discounted cash flow criteria for capital
 budgeting decisions?

Select correct option:

Payback Period lec 28

Net Present Value

Average Accounting Return
None of the given options

87. Period costs include which of the following?

Select correct option:

Selling expense

Raw material
Direct labor

Manufacturing overhead

88. The value of net working capital will be greater than zero when:

Select correct option:

Current Assets > Current Liabilities

Current Assets < Current Liabilities
Current Assets = Current Liabilities
None of the given options

89. According to Du Pont Identity, ROE is affected by which of the following?
 Select correct option:

Operating efficiency
Asset use efficiency
Financial Leverage

All of the given options

90. Which of the following issue is NOT covered by “Investment” area of finance?
 Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

91. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will
 be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity
Financing activity

None of the given options

92. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of
 Rs. 460,000. What would be the Current Ratio for the company if there is an inventory
 level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution= 700000/460000=1.52

93. In which type of business, all owners share in gains and losses and all have unlimited
 liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6
Limited Partnerhsip

Corporation

94. a firm uses cash to purchase inventory, its current ratio will:
 Select correct option:

Increase

Decrease

Remain unaffected

Become zero

95. Which of the following is a special case of annuity, where the stream of cash flows
 continues forever?

Select correct option:

Ordinary Annuity

Special Annuity
Annuity Due
Perpetuity

96. Which of the following is an example of positive covenant?
 Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

97. Which of the following refers to the difference between the sale price and cost of inventory?
 Select correct option:

Net loss

Net worth

Markup

Markdown

98. Which of the following allows a company to repurchase part or all of the bond issue at a
 stated price?

Select correct option:
Repayment

Seniority

Call provision

Protective covenants

99. \_\_\_\_\_\_\_\_\_\_\_\_ shows the sources from which cash has been generated and how it has been
 spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner’s Equity Statement

100. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

101. Which of the following form of business organization is least regulated?

Select correct option:

Sole-proprietorship

General Partnership
Limited Partnership
Corporation

102. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity
Present value of a lump sum

103. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate
Bond Price > Par Value and YTM > coupon rate
Bond Price > Par Value and YTM < coupon rate
Bond Price < Par Value and YTM < coupon rate

104. When a corporation wishes to borrow from public on a long-term basis, it does so

by issuing or selling:

Select correct option:

Debt securities or bonds

Common Stocks

Preferred Stock

All of the given options

105. Which of the following item provides the important function of shielding part of

income from taxes?

Select correct option:

Inventory

Supplies
Machinery

Depreciation

106. A firm reports total liabilities of Rs. 300,000 and owner’s equity of Rs. 500,000.

What would be the total worth of the firm’s assets?

Select correct option:

Rs. 300,000

Rs. 500,000

Rs. 800,000

Rs. 1100,000

sol

Asset= liabilities+ capital so 300+500=800,000

107. Which of the following forms of business organizations is created as a distinct legal

entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship
General Partnership
Limited Partnership

Corporation

108. in which form of Business, owners have limited libility.

Select correct option:

sole proprietorship
partnership

joint stock company

none of the above

124. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm’s working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender Maintaining any collateral or security in good condition
Restricting selling or leasing assets

125. Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency
Asset use efficiency
Financial policy

Dividend policy

126. Which of the following statement shows assets, liabilities, and net worth as of a

specific date?

Select correct option:

Income Statement

Balance Sheet

Owner’s Equity Statement
 Cash Flow Statement
 Armaan: b

127. Product costs include which of the following?

Select correct option:

Selling expenses
General expenses

Manufacturing overhead

Administrative expenses

128. An account was opened with an investment of Rs. 3,000 ten years ago. The ending
 balance in the account is Rs. 4,100. If interest was compounded, how much compounded
 interest was earned?

Select correct option:

Rs. 500

Rs. 752
Rs. 1,052

Rs. 1,100

4100-3000=1100

129. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

130. Which of the following cash flow activities are reported in the Cash Flow Statement

and Income Statement?

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

131. Which of the following term refers to establish of a standard to follow for

comparison?

Select correct option:

Benchmarking 48

Standardizing

Comparison
Evaluation

132. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency pg 44

Asset use efficiency

Financial policy
Dividend policy

133. Rule of 72 for finding the number of periods is fairly applicable to which of the

following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

5% to 20%

10% to 50%

134. Which of the following refers to a conflict of interest between principal and agent?

Select correct option:

Management Conflict
Interest Conflict

Agency Problem

None of the given options

135. Which of the following is a series of constant cash flows that occur at the end of each

period for some fixed number of periods?
Select correct option:

Ordinary annuity 63

Annuity due

Perpetuity

None of the given options

136. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions
International finance

Investments

All of the given options

137. 7:03 AM Which of the following is NOT an external use of financial statements

information?

Select correct option:

Evaluation of credit standing of new customer

Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

138. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions
International finance
Investments

All of the given options

139. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.

What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%
solution

0000\*100= 6%

140. Which of the following is the process of planning and managing a firm’s long-

term investments?

Select correct option:

Capital Structuring
Capital Rationing

Capital Budgeting

Working Capital Management

141. Which of the following refers to the cash flows that result from the firm’s day-to-

day activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows
Financing Cash Flows
All of the given options

142. Quick Ratio is also known as:

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

143. Mr. Y and Mr. Z are planning to share their capital to run a business. They are
 going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

144. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A

and B will be \_\_ and \_\_ respectively.

Select correct option:

20%; 80%

37%; 63%
63%; 37%
80%; 20%

145. When corporations borrow, they generally promise to: I. Make regular scheduled
 interest payments II. Give the right of voting to bondholders III. Repay the original
 amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

I and III

II and IV

I, III, and IV

146. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

A personal profile of the issuer

A description of the security

147. What would be the present value of Rs. 10,000 to be received after 6 years at a

discount rate of 8 percent?

Select correct option:

Rs. 6,302

Rs. 9,981
Rs. 14,800
Rs. 15,869

148. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

Corporation’s payment of interest on debt is fully taxable.

149. The preferred stock of a company currently sells for Rs. 25 per share. The annual
 dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of
 return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

150. Which of the following is a special case of annuity, where the stream of cash flows

continues forever?

Select correct option:

Ordinary Annuity
Special Annuity
Annuity Due

Perpetuity

151. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin

of 5 percent. Total sales for JJ Inc. would be :

Select correct option:

Rs. 150,000
Rs. 200,000
Rs. 250,000

Rs. 400,000

ROTA = N.P / Total Assets
4 % = N.P / 500,000

4% \* 500,000 = N.P

N.P = Rs. 20,000

N.P Margin = N.P / Sales
5 % = 20,000 / Sales
5% \* Sales = 20,000
Sales = 20,000 / 5%

Sales = 400,000

;;

152. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:

Average Accounting Return (AAR)

Internal Rate of Return (IRR) pg 109

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

153. Which of the following is the expected rate of return on a bond if bought at its

current market price and held to maturity

Select correct option:

Current Yield

Yield To Maturity

Coupon Yield

Capital Gains Yield

154. If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option:

Increase

Decrease

Remain unaffected
Become zero

155. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

Remain unaffected
Become zero