

**FINAL TERM EXAMINATION**  
Fall 2008  
ACC501- Business Finance (Session - 1)

Marks: 81

**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
- ▶ -

**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. 155,000
- ▶ Rs. 45,000
- ▶

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

Selected information from SNT Company's accounting records is as follows:

- Cash paid to retired common shares Rs. 15,000
- Proceeds from issuance of preferred shares Rs. 20,000
- Cash dividends paid Rs. 8,000
- 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 Com pany has a current ratio of 3:2. Current Liabilities reported by the com pany are Rs. 30 ,0 0 0 . What would be the Net Working Capital for the company?~~

Rs. 45,000

▶ Rs. 15,000

▶ ( Rs. 45,000)

▶ ( ₹s. 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

▶ I, II, III, and 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

▶

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**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



**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



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

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

- Interest rate risk premium
- ▶ Inflation risk premium
- ▶ Default risk premium
- ▶ 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
- ▶ Tertiary Market
- ▶ None of the given options
- ▶

**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
- ▶

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

An investment will be \_\_\_\_\_ if the IRR does not exceed the required return and \_\_\_\_\_ otherwise.

Accepted; rejected

- ▶ Accepted; accepted
- ▶ Rejected; rejected
- ▶ Rejected; accepted
- ▶

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

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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**

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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**

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

- ▶ Discounted Cash Flow Criteria
- ▶ Accounting Criteria
- ▶ Payback Criteria
- ▶ None of the given options

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

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\_\_\_\_\_ 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**

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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**

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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**

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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
- ▶

**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: 29 ( 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 net 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 %



**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 capital has declined by Rs. 40,000. There was a net capital spending of Rs. 100,000 during the year. What will be the total cash flow for the project?

Rs. 85,000





Rs. 165,000

▶ Rs. 285,000

▶ Rs. 365,000



**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%



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

Suppose a firm borrows Rs. 800,000 at 7%. What will be the after-tax interest rate if tax rate is 34%?

3.00%

▶ 4.62%

▶ 5.20%

▶ 8.00%



**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



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

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

65 units

- ▶ 79 units

- ▶ 89 units

- ▶ 95 units



**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 common 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**

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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

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

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What will 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

**Question No: 43 ( Marks: 3 )**

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Write down the components of total return in terms of dividend growth model.

**Question No: 44 ( Marks: 3 )**

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What is the difference between operating cycle and cash cycle?

**Question No: 45 ( Marks: 3 )**

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How a firm's overall cost of capital is calculated?

**Question No: 46 ( Marks: 5 )**

Define the following terms:

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- (i) Dealer
- (ii) Broker
- (iii) Bid Price
- (iv) Strike Price
- (v) Spread

**Question No: 47 ( Marks: 5 )**

A firm has a total value of Rs. 1 million and debt valued at Rs. 400,000. What is the after-tax weighted average cost of capital if the cost of debt is 12%, the cost of equity is 15% and tax rate is 35%?

**Question No: 48 ( Marks: 10 )**

SNT & Co. has the following Target capital structure:

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Debentures	=	Rs. 5.00 Billion
Preferred shares	=	Rs. 2.65 Billion
Common shares	=	Rs. 9.35 Billion
Total	=	<u>Rs. 17 Billion</u>

Bonds carry an interest rate of 11.5%. Common stocks and Preferred stocks have a return of 15.50% and 12% respectively and corporate tax rate is 40%. Compute the present Weighted Average Cost of Capital (WACC) for SNT & Co.

**Question No: 49 ( Marks: 10 )**

Standard Manufacturing Company (SMC) needs one of two machines. Machine X costs Rs. 25,000 and has cash flows of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flows of Rs. 7,000 a year for six years. SMC has 12% cost of capital. Calculate each machine's Payback Period and NPV (Net Present Value) and evaluate the results.