

Fin 622 solved material

ALL SOLVED QTA WITH REFERENCE OF CORPORATE FINANCE (FIN 622)

KINDLY IF YOU FIND ANY MISTAKE THEN TELL ME I WILL CHECK ACCORDING TO MY KNOWLEDGE AS WELL AS I CONCERN BOOKS SEARCHING AND OTHER MATERIAL

Question # 9 of 15 (Start time: 03:20:24 PM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

11.04%

10.47%

10.00%

10.12%

ref:

http://webcache.googleusercontent.com/search?q=cache:KMwZsI7OdkoJ:www.freewebs.com/fazilah_mm/Test%2520bank%2520-%2520TVM1.doc+The+effective+annual+rate+of+an+investment+with+a+nominal+annual+rate+of+10%25+compounded+monthly+is+closest+to+...&cd=1&hl=en&ct=c&link&gl=pk&client=firefox-a

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

$$QBE = (P - V)/FC.$$

$$QBE = (P/FC) - V.$$

$$QBE = (FC/P) - V.$$

$$**QBE = FC/ (P - V).**$$

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options not sure

Which one of the following statements describe "Shareholders' wealth" in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Ref:

http://wiki.answers.com/Q/Maximizing_shareholder_wealth_means_maximizing_the_firm_s_what

If common stocks of a company have beta value equal to 1, then such stocks are known as:

Select correct option:

Normal stocks

Aggressive stocks

Defensive stocks

Income stocks

Aggressive stock beta value greater than one and defensive stock beta value less than one so reminder is Normal stock so I think it,s Normal stock

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

Decreases

Increases the covariance of

Increases

Does not affect

Suppose you have a 2-stocks portfolio, which consists of Stock A and Stock B. If stock A has a beta value of 1.8 and stock B has a beta value of 0.68, and your investment in stock A and stocks B is equal, then the beta of this 2-stock portfolio would be equal to:

Select correct option:

1.20

1.24

1.30

1.45

Which of the following is known as market portfolio?

Select correct option:

A portfolio consists of all risk free securities available in the market
A portfolio consists of securities of the same industry
A portfolio consists of all aggressive securities available in the market
A portfolio consists of all securities available in the market

Ref: http://en.wikipedia.org/wiki/Market_portfolio

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

Ref: <http://www.investopedia.com/university/advancedbond/advancedbond4.asp>

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

\$82,168.44

\$71,450.82

\$768,901.12

\$668,609.67

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

Its price will rise

Its price will remain unchanged

Its price will fall. 100% sure

Can not be determined

Question # 4 of 15 (Start time: 03:33:44 PM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?

Select correct option:

Reduction of double taxation.

Limited owner liability.

Page 4

Legal restrictions.

Ease of organization.

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Select correct option:

Rs.3,105.

Rs.823.

Rs.620.

Rs.3,403.

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Ref: http://highered.mcgraw-hill.com/sites/0073012386/student_view0/chapter7/multiple_choice_quiz.html

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

Initial cost

Equipment cost

Cost of capital

Sunk cost

Ref: <http://www.scribd.com/doc/18688564/A-Note-on-the-Financial-Evaluation-of-Projects>

Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?

Select correct option:

Simple payback period

Discounted payback period

Multiple Internal Rate of Return

Linear Programming page 45

Question # 10 of 15 (Start time: 03:38:02 PM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

Initial Public Offering slide 18

Buying Mutual Funds Certificates

Selling old shares

Buying Bonds issued in previous year

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio. Page 57

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

Simple payback method page 34

Net present value

Profitability index

Internal rate of return for borrowing projects

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

Rs.2.30

Rs.3.26 $FV = PV \cdot (1+I)^n$

Rs.3.25

Rs.2.93

Question # 14 of 15 (Start time: 03:41:57 PM) Total Marks: 1

Average beta has value equal to:

Select correct option:

1 slide 16

2

3

4

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

REF: BEQ= FC/P-VC

$$= 50000 / 18-8 = 50000 / 10 = 5000$$

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variances in a project affect profitability

REF: <http://www.investopedia.com/terms/s/sensitivityanalysis.asp>

which of the following conditions a stock is said to be overvalued?

Select correct option:

If the stock has market value less than the expected value

If the stock has market value more than the expected value PAGE 57

If the stock has market value equal to the expect value

If the stock has market value less than its intrinsic value

: Which of the following statement it TRUE regarding a risk free security?

Select correct option:

It has a zero return

It has a beta equal to zero

It can not be added to a portfolio

It has relatively a high rate of return

REF: <http://web.utk.edu/~jwachowi/mcquiz/mc5.html>

: Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Select correct option:

Rs.22,456

Rs.35,098

Rs.28,324.

Rs.20,324

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Question # 3 of 15 (Start time: 03:59:51 PM) Total Marks: 1

The employment of fixed costs associated with the actual production of goods or services is known as:

Select correct option:

Financial leverage

Volume discounting

Operating leverage SLIDE 13

Covariance

Which of the following shows the reward to risk ratio of a security A ?

Select correct option:

Expected return of A (rA) – Risk free return / Beta of A

Expected return of A (rA) – Risk free return / required return of A

Expected return of A (rA) – Beta of A / Risk free return

Risk free return - Expected return of A (rA)/ Beta of A

In the formula $r_E = (D_1/P_0) + g$, what does the symbol "g" represent?

Select correct option:

The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Which of the following measures systematic risk of a firm's common stock?

Select correct option:

Beta **PAGE 50**

CAPM

MM -Model

SML

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.

You should analyze the projects independently.

Both the given options may apply

None of the given options

REF

<http://webcache.googleusercontent.com/search?q=cache:mz7017EARDIJ:www.amc.edu.au/system/files/module%2B%2Binvestment%2Bdecision%2B%281%29.ppt+If+two+projects+are+independent+Selection+of+one+precludes+selection+of+the+other.&cd=9&hl=en&ct=clnk&gl=pk&client=firefox-a>

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash Flows **PAGE 109**

Sunk Cost

None of the given option

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

REF: <http://web.utk.edu/~jwachowi/mcquiz/mc4.html>

A risk free asset has a Beta value equal to:

Select correct option:

0 PAGE 54

1

2

3

Which of the following is a long-term source of financing for a firm?

Select correct option:

Corporate Bonds

Money Market instruments

Trade credit

Accounts Payables

REF: <http://www.economywatch.com/finance/sources-of-finance.html>

http://en.wikipedia.org/wiki/Bond_%28finance%29

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

REF:

[http://webcache.googleusercontent.com/search?q=cache:aJbJs0lnLJYJ:www.csun.edu/~v covrig/FIN303_Examtypeq2.doc+Which+of+the+following+bonds+will+have+the+greatest+percentage+increase+in+value+if+all&cd=3&hl=en&ct=clnk&gl=pk&client=firefox](http://webcache.googleusercontent.com/search?q=cache:aJbJs0lnLJYJ:www.csun.edu/~v covrig/FIN303_Examtypeq2.doc+Which+of+the+following+bonds+will+have+the+greatest+percentage+increase+in+value+if+all&cd=3&hl=en&ct=clnk&gl=pk&client=firefox-a)

-a

The longer the maturity of a bond, the more of an effect a change in interest rates **will have** on it. The reason for this is that the price change is compounded into the bond price for more periods. Therefore, you can rule out statements b and e. A bond that pays coupons **will** be less affected by interest rate changes than one that doesn't pay coupons. The bond price is the NPV of **all** the future cash flows, both

the coupon payments and the par value paid at maturity. The first coupon payment is only discounted one period. The second coupon is discounted two periods, and so on. The par value is discounted for the full life of the bond. Thus, statements c and d can be eliminated. Since a zero coupon bond's price today is determined just by the NPV of its par value, all of its payment is discounted for the maximum amount of time, whereas a coupon bond has many payments discounted for less than the maximum amount of time. Therefore, a zero coupon bond is most affected by interest rate changes. So, the longest zero coupon bond is the correct answer, which is statement a.

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond **NOT SURE**

The interest payments to be received.

All of the given options

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

Working Capital Management

Capital Budgeting

Cash Budgeting

None of the given options

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost

Increasing variable cost

Increasing direct cost

Lowering sales price

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis **PAGE 45**

Horizontal analysis

Vertical analysis

Which of the following may be a major reason for hard capital rationing?

Select correct option:

Dilution of earning per share (EPS)

High interest expense

High interest rate SLIDE 13 BOOK PAGE 44

Company own policies

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Select correct option:

Rs.22,456

Rs.35,098

Rs.28,324.

Rs.20,324

Question # 11 of 15 (Start time: 05:17:31 PM) Total Marks: 1

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

Accepting projects with the highest NPVs first

Accepting projects with the highest IRRs first

Bypassing projects that have positive NPVs

Bypassing projects that have positive IRRs

REF:

http://novella.mhhe.com/sites/0073012386/student_view0/chapter7/multiple_choice_quiz.html

Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on the stock?

Select correct option:

2%

3%

4%

5%

Which of the following stock would provide a regular income to the investors?

Select correct option:

Growth stock

Income stock

Aggressive stock

Defensive stock

REF: <http://www.investopedia.com/terms/i/incomestock.asp>

Average beta has value equal to:

Select correct option:

1 SLIDE 16

2

3

4

Which one of the following terms refers to the variability of return on stocks or portfolios associated with changes in return on the market as a whole?

Select correct option:

Unsystematic risk

Unique risk

Systematic risk

Company specific risk

REF: <http://wps.pearsoned.co.uk/wps/grader>

_____ is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification.

- Systematic risk
- Standard deviation.
- Unsystematic risk
- Coefficient of variation.

REF: <http://wps.pearsoned.co.uk/wps/grader>

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

REF: value investing is buying stocks at less than their intrinsic value

http://en.wikipedia.org/wiki/Value_investing

Quiz #2(1-18)

Fin 622

MC080200627: Muhammad Naveed

Question # 1 of 15 (Start time: 07:42:42 PM)

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered

Fixed costs should be traded for variable costs
Variable costs should be traded for fixed costs.
The project should not be undertaken.

Additional marketing analysis may be beneficial before proceeding.

Question # 2 of 15 (Start time: 07:42:42 PM)

Which of the following capital budgeting technique ignores profitability and time value of money?

Net Present Value
Internal Rate of Return
Discounted Pay Back period

Simple Pay Back Period

Question # 3 of 15 (Start time: 07:44:01 PM)

Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?

Simple payback period
Discounted payback period
Multiple Internal Rate of Return

Linear Programming

Question # 4 of 15 (Start time: 07:44:54 PM)

A project would be financially feasible in which of the following situation?

If Internal Rate of Return of a project is greater than zero

If Net Present Value of a project is less than zero

If the project has Profitability Index less one.

If the project has Profitability Index greater than one.

Question # 5 of 15 (Start time: 07:45:50 PM)

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Rs.2.30

Rs.2.26

Rs.3.25

Rs.2.93

Question # 6 of 15 (Start time: 07:46:42 PM)

Which of the following stock would provide a regular income to the investors?

Growth stock

Income stock

Aggressive stock

Defensive stock

Question # 7 of 15 (Start time: 07:47:43 PM)

Which of the following is included in the cost of capital of a firm?

Cost of sales

Depreciation cost

Depletion cost

Cost of retained earnings

Question # 8 of 15 (Start time: 07:49:00 PM)

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

14%

13%

12%

10%

Question # 9 of 15 (Start time: 07:50:22 PM)

Which of the following is a disadvantage of Capital Asset Pricing model?

It consider market risk

It can be used for listed companies

It can be used for Non-listed companies

It is based on Past data

Question # 10 of 15 (Start time: 07:50:38 PM)

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

At a premium over face value.

At par value.
At a discount from face value.
At face value.

Question # 11 of 15 (Start time: 07:52:03 PM)

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Rs.3105

Rs.823.
Rs.620.
Rs.3,403.

Question # 12 of 15 (Start time: 07:53:28 PM)

Which of the following is a major advantage of the corporate form of organization?
Reduction of double taxation.

Limited owner liability.

Legal restrictions.
Ease of organization

Question # 13 of 15 (Start time: 07:54:56 PM)

A risk free asset has a Beta value equal to:

0

1
2
3

Question # 14 of 15 (Start time: 07:56:28 PM)

Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Rs.22,456

Rs.35,098

Rs.28,324.
Rs.20,324

Question # 15 of 15 (Start time: 07:57:28 PM)

In which of the following situations market price of a security will move up?

When market price of the security is above the intrinsic value of the security
When market price of the security is equal to the intrinsic value of the security
When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Which of the following equation shows the cost of Preferred stocks of a company?

Select correct option:

Cost of Preferred stocks = Dividend / Market Price

Cost of Preferred stocks = Market Interest rate / Market Price

Cost of Preferred stocks = Face value / Market Price

Cost of Preferred stocks = Dividend / Face value

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

4 percent.

5 percent.

7 percent.

9 percent.

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

$QBE = (P - V)/FC.$

$QBE = (P/FC) - V.$

$QBE = (FC/P) - V.$

$QBE = FC/(P - V).$

The variance of an investment's returns is a measure of the:

Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment.

Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.

Select correct option:

1.60

2.05

2.50

4.00

Ref: $(ROI) / (NPM) = TAT$

$$(.08) / (.05) = 1.6$$

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%

13%

12%

10%

- Ref: $r = DIV^1/P^0 + g =$
- $8\% + 5\% =$
- 13%

<http://webcache.googleusercontent.com/search?q=cache:xyeTVyOWK5YJ:mits.amrita.edu/mits/courses/accounting/finance/Chapter%25206.ppt+A+company+has+a+dividend+yield+of+8%25.+If+its+dividend+is+expected+to+grow+at+a+constant+rate+of+5%25,+what+must+be+the+expected+rate+of+return+on+the+company%E2%80%99s+stock%3F&cd=5&hl=en&ct=cl&gl=pk&client=firefox-a>

When a firm places a budgetary constraint on the projects it invests in, this is called:

Select correct option:

Capital rationing

Working capital management

Cash budgeting

None of the above

Ref: http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

The decision rule for net present value is to:
Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years

In the formula $rE = (D1/E0) + g$, what does the symbol "g" represent?
Select correct option:

The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Which of the following reason justifies the need for financial statement analysis?
Select correct option:

It will help improve capital budgeting process of the company

It will help improve future planning

It will help improve accounting policies of the company

It will help improve purchasing policies of the company

\
Which of the following is a necessary condition for issuing shares through IPO's?
Select correct option:

The firm must have a stable dividend policy

The firm must have a low cost of capital

The firm must have a low level of debt

The firm must be listed on the stock exchange page 61

Dividend discount Model states that today's price of a stock is equal to:
Select correct option:

The Present Value of all future dividends of the stock page 115

The Present Value of the face value of the stock

The Present Value of the Sales price of the stock

The Present Value of the book value of the stock

Which of the following is a main purpose of the Sensitivity Analysis?
Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out the how variables in a project affect profitability

Which one of the following is a major limitation of Linear Programming Technique of capital projects selection?

Select correct option:

Ignores the relative size of the Investment slide 14

Time value of money is not considered

Project cash flows are ignored

Project profitability is ignore

Which of the following statement best describe the term Market Correction?

Select correct option:

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market

Market correction occurs when shares' intrinsic values becomes equal to face values

Market Correction occurs when there is a boom in the economy

Market Correction occurs when inflation rate is above the market interest rate

Ref: I m not sure on this question but i think the chosen option is right one

Question # 3 of 15 (Start time: 11:32:42 PM) Total Marks: 1

Which of the following statements applies to Dividend Growth Model?

Select correct option:

It is difficult to understand and use

It is used for non-listed companies

It is used for debt securities also

It do not consider risk level of a security

Question # 2 of 15 (Start time: 11:44:31 PM) Total Marks: 1

What is the main purpose of constructing a portfolio of financial assets?

Select correct option:

To maximize risk and minimize the return

To minimize the risk and minimize the return

To **maximize the return and minimize the risk**

To minimize the return and minimize the risk

Question # 5 of 15 (Start time: 11:48:02 PM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

Weighted average

Standard deviation ref : fm book

Probability distribution

Geometric mean

Which of the following methods would be most suitable for calculating the return on stocks of a non-listed company?

Select correct option:

Dividend Growth model

Capital Asset Pricing Model

Security Market Line

Characteristics line

This file is good and all option were correct

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

- More than its face value.
- Less than its face value.**
- \$1,000.
- True.

If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?

- The stock has a low level of risk.
- The stock offers a high dividend payout ratio.
- The market is undervaluing the stock.**
- The market is overvaluing the stock.

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

- a premium.
- a discount.
- cannot be determined without more information.
- face value.

If an investor may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased, the investor is exposed to

- the coupon effect.
- interest rate risk.
- a perpetuity.
- an indefinite maturity.

Virgo Airlines will pay a \$4 dividend next year on its common stock, which is currently selling at \$100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

- 4 percent.
- 5 percent.
- 7 percent.
- 9 percent.

If a bond sells at a high premium, then which of the following relationships hold true? (P_0 represents the price of a bond and YTM is the bond's yield to maturity.)

- $P_0 < \text{par}$ and $\text{YTM} > \text{the coupon rate}$.
- $P_0 > \text{par}$ and $\text{YTM} > \text{the coupon rate}$.
- $P_0 > \text{par}$ and $\text{YTM} < \text{the coupon rate}$.
- $P_0 < \text{par}$ and $\text{YTM} < \text{the coupon rate}$.

Interest rates and bond prices

- move in the same direction.
- move in opposite directions.

- sometimes move in the same direction, sometimes in opposite directions.
- have no relationship with each other (i.e., they are independent).

In the formula $k_e = (D_1/P_0) + g$, what does g represent?

- the expected price appreciation yield from a common stock.
- the expected dividend yield from a common stock.
- the dividend yield from a preferred stock.
- the interest payment from a bond.

In the United States, most bonds pay interest _____ a year, while many European bonds pay interest _____ a year.

- once; twice
- twice; once
- once; once
- twice; twice

The expected rate of return on a bond if bought at its current market price and held to maturity.

- yield to maturity
- current yield
- coupon yield
- capital gains yield

The concept of risk can be expressed quantitatively as the _____ of expected future cash flows.

- Present value
- Probability
- Standard deviation
- Market value

Which of the following method should be used to evaluate the riskiness of an investment?

- Profitability index
- Sensitivity analysis
- Net present value
- Internal rate of return

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered

Fixed costs should be traded for variable costs
Variable costs should be traded for fixed costs.
The project should not be undertaken.

Additional marketing analysis may be beneficial before proceeding.

Which of the following capital budgeting technique ignores profitability and time value of money?

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?

Simple payback period

Discounted payback period

Multiple Internal Rate of Return

Linear Programming

A project would be financially feasible in which of the following situation?

If Internal Rate of Return of a project is greater than zero

If Net Present Value of a project is less than zero

If the project has Profitability Index less one.

If the project has Profitability Index greater than one.

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Rs.2.30

Rs.3.26

Rs.3.25

Rs.2.93

Which of the following stock would provide a regular income to the investors?

Growth stock

Income stock

Aggressive stock

Defensive stock

Which of the following is included in the cost of capital of a firm?

Cost of sales

Depreciation cost

Depletion cost

Cost of retained earnings

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

14%

13%

12%

10%

Which of the following is a disadvantage of Capital Asset Pricing model?

It consider market risk

It can be used for listed companies

It can be used for Non-listed companies

It is based on Past data

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

At a premium over face value.

At par value.

At a discount from face value.

At face value.

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Rs.3105

Rs.823.

Rs.520.

Rs.3,403.

Which of the following is a major advantage of the corporate form of organization?

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

A risk free asset has a Beta value equal to:

0

1

2

3

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Rs.22,456

Rs.35,098

Rs.28,324.

Rs.20,324

In which of the following situations market price of a security will move up?

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

What are the earnings per share (EPS) for a company that earned Rs.100,000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earnings at the year end?

- ▶ Rs.1.00
- ▶ Rs. 6.00
- ▶ **Rs. 0.50**
- ▶ Rs. 6.50

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ▶ Systematic risk
- ▶ Standard deviation
- ▶ **Unsystematic risk**
- ▶ Financial risk

In which of the following approaches do you need to bring all the projects to the same length in time?

- ▶ MIRR approach
- ▶ Going concern approach
- ▶ **Common life approach**
- ▶ Equivalent annual approach

Beta is the slope of

- the security market line.
- the capital market line.
- a characteristic line**
- the CAPM

The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- ▶ A probability distribution
- ▶ **The expected return**

- ▶ The standard deviation
- ▶ Coefficient of variation

A measure of "risk per unit of expected return."

- standard deviation
- coefficient of variation**
- correlation coefficient
- beta

What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

Indenture.

Debenture.

Bond.

Bond trustee.

To increase a given present value, the discount rate should be adjusted

- upward.
- downward.**
- True.
- Fred.

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

The sinking fund retirement of a bond issue takes _____.

only one form -- the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee

only one form -- the corporation pays cash to the trustee, who in turn calls the bonds for redemption.

only one form -- bonds mature periodically and the corporation retires them in the order that they mature.

two forms -- (1) the corporation purchases bonds in the open market and delivers a given number of bonds to the trustee; or (2) the corporation pays cash to the trustee, who in turn calls the bonds for redemption.

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Long-term debt.

Preferred stock.

Common stock.

Both the second and third answers are

What type of long-term financing most likely has the following features: 1) it has a finite life, 2) failure to pay the cash flows could lead to bankruptcy, and 3) its cash flows are expected to be a constant annuity stream?

Long-term debt.

Preferred stock.

Common stock.

Both the second and third answers are

A proxy is _____.

a unique voting system that allows minority shareholders to elect at least one director

a protective agreement that allows shareholder the ability to purchase new shares in the same percentage as their current ownership proportion.

a legal document giving one entity or person the authority to vote for another.

All of the above answers are in

Bond is a type of Direct Claim Security whose value is NOT secured by _____.

▶ Tangible assets

▶ **Intangible assets**

▶ Fixed assets

▶ Real assets

Why companies invest in projects with negative NPV?

▶ **Because there is hidden value in each project**

▶ Because they have chance of rapid growth

▶ Because they have invested a lot

▶ All of the given options

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- ▶ **One; one**
- ▶ Two; two
- ▶ Two; one
- ▶ Three; one

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

- ▶ **Probability distribution**
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

Which of the following would tend to reduce a firm's P/E ratio?

- ⊙⊙⊙⊙⊙▶ ⊙The firm significantly decreases financial leverage
- ⊙⊙⊙⊙⊙▶ ⊙The firm increases return on equity for the long term
- ✱✱✱✱✱▶ ✱The level of inflation is expected to increase to double-digit levels**
- ⊙⊙⊙⊙⊙▶ ⊙The rate of return on Treasury bills decreases

What mechanism ensures that large firms who benefit from tax laws pay some minimum amount of tax?

- Annual minimum tax.
- Alternative minimum tax.**
- Minimum tax law.

Corpulent minimum tax

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

Unlimited liability.

Single tax filing.

Difficult ownership resale

Raising capital.

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

▶ **Shareholder; manager**

▶ Manager; owner

▶ Accountant; bondholder

▶ Shareholder; bondholder

Which group of ratios measures a firm's ability to meet short-term obligations?

▶ **Liquidity ratios**

▶ Debt ratios

▶ Coverage ratios

▶ Profitability ratios

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

_____ is equal to (common shareholders' equity/common shares outstanding).

- A) Book value per share**
- B) Liquidation value per share
- C) Market value per share
- D) Tobin's Q

_____ are analysts who use information concerning current and prospective profitability of a firm to assess the firm's fair market value.

- A) Credit analysts
- B) Fundamental analysts**
- C) Systems analysts
- D) Technical analysts

The _____ is defined as the present value of all cash proceeds to the investor in the stock.

- A) dividend payout ratio
- B) intrinsic value**
- C) market capitalization rate
- D) plowback ratio

A statistical measure of the variability of a distribution around its mean is referred to as _____.

A probability distribution

- ▶ The expected return
- ▶ The standard deviation**
- ▶ Coefficient of variation

Total portfolio risk is _____.

equal to systematic risk plus nondiversifiable risk

equal to avoidable risk plus diversifiable risk

equal to systematic risk plus unavoidable risk

equal to systematic risk plus diversifiable risk

_____ is the variability of return on stocks or portfolios associated with changes in return on the market as a whole.

Systematic risk

- ▶ Standard deviation
- ▶ Unsystematic risk
- ▶ Financial risk

For most firms, P/E ratios and risk

- A) will be directly related.
- B) will have an inverse relationship.**
- C) will be unrelated.
- D) will both increase as inflation increases

Dividend discount models and P/E ratios are used by _____ to try to find mispriced securities.

- A) technical analysts
- B) statistical analysts
- C) fundamental analysts**
- D) dividend analysts

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account

Magnitude of expected cash flows

Timing of expected cash flows

Both timing and magnitude of cash flows

None of the given options

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

According to timing difference problem a good project might suffer from _____ IRR even though its NPV is _____.

Select correct option:

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

The value of direct claim security is derived from which of the following?

Select correct option:

Fundamental analysis

Underlying real asset

Supply and demand of securities in the market

All of the given options

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

- a premium.
- a discount.
- cannot be determined without more information.
- face value

The benefit we expect from a project is expressed in terms of:
Select correct option:

Cash in flows

Cash out flows

Cash flows

None of the given option

Cash budgets are prepared from past:
Select correct option:

Balance sheets

Income statements

Income tax and depreciation data

None of the given options

In the dividend discount model, _____ which of the following are not incorporated into the discount rate?

Select correct option:

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

▶ **Equal to zero**

▶ Greater than zero

▶ Equal to the sum of the securities' standard deviations

▶ Equal to -1

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

- ▶ %
- ▶ Times
- ▶ Number of days
- ▶ All of the given options

What are two major areas of capital budgeting?

Net present value, profitability index

Net present value; internal rate of return

Net present value; payback period

Pay back period; profitability index

When Investors want high plowback ratios?

Whenever $ROE > k$

Whenever $k > ROE$

Only when they are in low tax brackets

Whenever bank interest rates are high

To increase a given future value, the discount rate should be adjusted

_____.

Select correct option:

Upward

Downward

First upward and then downward

None of the given options

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Which of the following market in finance is referred to the market for short-term government and corporate debt securities?

Select correct option:

Money market

Capital market

Primary market

Secondary market

In finance we refer to the market where new securities are bought and sold for the first time as the _____ market

Money market

Capital market

Primary market

Secondary market

In finance we refer to the market for relatively long-term financial instruments as the _____ market.

Money market

Capital market

Primary market

Secondary market

How "Shareholder wealth" is represented in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Which of the following examples would be deductible as an expense on the corporation's income statement?

Interest paid on outstanding bonds

Cash dividends paid on outstanding common stock

Cash dividends paid on outstanding preferred stock

All of the above.

The firm has 20,000 common shares authorized, 15,000 shares outstanding, and 3,000 shares of treasury stock. How many common equity shares are issued?

- 2,000
- 5,000
- 17,000
- 18,000**

Which of the following statements is the least likely to be correct?

- ▶ A firm that has a high degree of business risk is less likely to want to incur financial risk
- ▶ There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm**
- ▶ Financial ratios are relevant for making internal comparisons
- ▶ It is important to make external comparisons of financial ratios

An annuity due is always worth _____ a comparable annuity.

- ▶ Less than
- ▶ More than**
- ▶ Equal to
- ▶ Can not be found

Which of the following would be considered a cash-flow item from a "financing" activity?

- ▶ A cash outflow to the government for taxes
- ▶ A cash outflow to repurchase the firm's own common stock**
- ▶ A cash outflow to lenders as interest
- ▶ A cash outflow to purchase bonds issued by another company

The market price of a share of common stock is determined by:

- the board of directors of the firm.
- the stock exchange on which the stock is listed.
- the president of the company.

individuals buying and selling the stock

The focal point of financial management in a firm is

- the number and types of products or services provided by the firm.
- the minimization of the amount of taxes paid by the firm.

the creation of value for shareholders.

- the dollars profits earned by the firm.

The controller's responsibilities are primarily in nature, while the treasurer's responsibilities are primarily related to

- operational; financial management
- financial management; accounting

accounting; financial management

- financial management; operations

A company's is (are) potentially the most effective instrument of good corporate governance.

- common stock shareholders

board of directors

- top executive officers

_____ refers to meeting the needs of the present without compromising

the ability of future generations to meet their own needs.

Corporate Social Responsibility (CSR)

Sustainability

Convergence

Green Economics

What is difference between shares and bonds?

Bonds are representing ownership whereas shares are not

Shares are representing ownership whereas bonds are not

Shares and bonds both represent equity

Shares and bond both represent liabilities

Which group of ratios shows the extent to which the firm is financed with debt?

Liquidity ratios

Debt ratios

Coverage ratios

Activity ratios.

Which of the following portfolio statistics statements is correct?

A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.

A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.

The square root of a portfolio's standard deviation of return equals its variance.

The square root of a portfolio's standard deviation of return equals its coefficient of variation.

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Ref: <http://www.investopedia.com/terms/t/technicalanalysis.asp>

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing

A zero growth common stock

A positive growth common stock

A short-term bond

An option.

Ref: <http://www.wattpad.com/75486?p=2>

Which of the following equation shows the cost of Preferred stocks of a company

Cost of Preferred stocks = Dividend / Market Price

Cost of Preferred stocks = Market Interest rate / Market Price

Cost of Preferred stocks = Face value / Market Price

Cost of Preferred stocks = Dividend / Face value

Which of the following changes will increase the Net Present Value (NPV) of a project

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

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<http://webcache.googleusercontent.com/search?q=cache:iv45Jkq7f0J:students.uta.edu/yx/yxd0907/fina3313/Answer%2520key%2520to%2520home+ork%2520.doc+Which+of+the+following+changes+will+increase+the+Net+Present+Value+%28NPV+%29+of+a+project&cd=1&hl=en&ct=clnk&gl=pk&client=firefox-a>

Since companies in some industries typically have high fixed costs, but have stable and predictable revenues. Which of the following statement would be TRUE about these companies?

Their degree of operating leverage is relatively low.

Their bond issues would tend to have a speculative rating.

Their overall business risk is relatively low.

They are unable to take on much additional financial risk.

MIDTERM EXAMINATION

Fall 2009

FIN622- Corporate Finance (Session - 4)

Time: 60 min

Marks: 50

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

Which of the following statements is TRUE regarding Profitability Index?

- ▶ It ignores time value of money
- ▶ It ignores future cash flows
- ▶ **If ignores the scale of investment**
- ▶ It ignores return on investment

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

A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

- ▶ By increasing the amount of borrowings
- ▶ By shifting short-term to long-term debt
- ▶ By shifting long-term to short-term debt
- ▶ **By selling the common stock**

Ref: <http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

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

A public limited Company had sales of Rs.2 million this year. The marketing manager expects sales to grow at a 10 percent compound annual rate over the next 10 years. On this basis, which of the following is the closest amount of sales in 10 years?

- ▶ **Rs.5,187,485.**
- ▶ Rs.2,593,722.
- ▶ Rs.4,622,885.
- ▶ Rs.5,081,309.

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

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

- ▶ Rs.22,863
- ▶ **Rs.35,097**
- ▶ Rs.39,310
- ▶ Rs.25,151

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

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

- ▶ **Sensitivity Analysis**
- ▶ Fundamental Analysis
- ▶ Technical Analysis
- ▶ Trend Analysis

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

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.

- ▶ **Degree of operating leverage**
- ▶ Degree of profit leverage
- ▶ Degree of total leverage
- ▶ Degree of financial leverage

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

A project would be financially feasible in which of the following situations?

- ▶ If Internal Rate of Return of a project is greater than zero
- ▶ If Net Present Value of a project is less than zero
- ▶ If the project has Profitability Index less than one
- ▶ **If the project has Profitability Index greater than one**

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

Which of the following is determined by variance of an investment's returns?

- ▶ Volatility of the rates of return.
- ▶ Probability of a negative return.
- ▶ Historic return over long periods.
- ▶ **Average value of the investment.**

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

Which of the following conditions, if exist, will make the diversification of stocks more effective?

- ▶ Securities contained in a portfolio are positively correlated
- ▶ **Securities contained in a portfolio are negatively correlated**
- ▶ Securities contained in a portfolio have high market values
- ▶ Securities contained in a portfolio have low market values

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

Which one of the following terms refers to the variability of return on stocks or portfolios not explained by general market movements, and is avoidable through proper diversification?

- ▶ Total risk
- ▶ Systematic risk
- ▶ **Unsystematic risk**
- ▶ Market risk

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

Suppose a stock is selling today for Rs.40 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.44.00. what is the rate of return on this stock?

- ▶ 12%
- ▶ 13%
- ▶ 14%
- ▶ **15%**

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

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

- ▶ Normal stocks
- ▶ Aggressive stocks
- ▶ **Defensive stocks**
- ▶ Income stocks

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

What will be the risk premium if the market portfolio has an expected return of 10% and the risk free rate is 4%?

- ▶ 4%
- ▶ 5%
- ▶ 6%
- ▶ 7%

formula required

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

A firm had an interest expense of Rs.400,000 on its outstanding debt during the financial year 2006-2007. If the firm marginal tax rate is 40%, what was the total tax savings of the firm during the period 2006-2007?

- ▶ Rs.150,000
- ▶ **Rs.160,000**
- ▶ Rs.170,000
- ▶ Rs.180,000

to be solved

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

In which of the following dividend policies, the amount of dividend is relatively fixed?

▶ **Constant payout ratio policy**

- ▶ Hybrid dividend policy
- ▶ Residual dividend policy
- ▶ Stable dividend policy

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

▶ **Value of a firm is independent of its capital structure**

- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital

- ▶ Value of a firm is independent on its level of equity finances

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

Which of the following companies may be considered as a Pure Play in the beverages industry in Pakistan?

- ▶ Coca Cola
- ▶ Pepsi
- ▶ Shezan
- ▶ Nestlé

answer required

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

Which of the following is a disadvantage of Capital Asset Pricing Model?

- ▶ It considers market risk
- ▶ It can be used for listed companies
- ▶ It can be used for non-listed companies
- ▶ **It is based on past data**

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

Which of the following methods would be most suitable for calculating the return on stocks of a non-listed company?

▶ **Dividend Growth Model**

- ▶ Capital Asset Pricing Model
- ▶ Security Market Line
- ▶ Characteristics Line

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
- ▶ **It has no effect on the break-even level.** Slide 13
- ▶ This cannot be determined without knowing the length of the investment horizon.

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

Which of the following statements is **TRUE** regarding Balance Sheet of a firm?

- ▶ It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
- ▶ It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
- ▶ **It shows the firm's financial position at a specific point in time.**
- ▶ It summarizes the firm's revenues and expenses over an accounting period.

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

Which of the following would be a consequence of a high Inventory Turnover Ratio?

- ▶ Low level of inventory and frequent stock outs
- ▶ Seasonal elements peculiar to the business
- ▶ **Efficient inventory management**
- ▶ Any of the given option

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

Short-term creditors would be most interested in which of the following ratios of a firm?

- ▶ Coverage ratios
- ▶ **Liquidity ratios**
- ▶ Profitability ratios
- ▶ Debt ratios

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

What are the earnings per share (EPS) for a company that earned Rs.100,000 last year in after-tax profits, has 200,000 common shares outstanding, and Rs.1.2 million in retained earnings at the year end?

- ▶ Rs. 6.50
- ▶ Rs. 6
- ▶ Rs. 100,000
- ▶ **Rs. 0.50**

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

Which of the following statements is **CORRECT** with respect to common-size income and balance sheet statements?

- ▶ They show how total sales change over time, but not total assets.
- ▶ **They show how both total sales and total assets change over time.**
- ▶ They provide no information about how total assets or total sales change over time.
- ▶ They show how total assets change over time, but not total sales.

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

Which one of the following statements is **TRUE** regarding Present Value of an amount to be received at some future date?

- ▶ It increases as the years to receipt increases
- ▶ It remains unaffected as the years to receipt increases
- ▶ **It decreases as the years to receipt increases**
- ▶ None of the given options

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

How many years will it take for Rs.152,000 to grow to be Rs. 405,000 if it is invested in an account with an annual interest rate of 10%?

- ▶ 13.68
- ▶ 8.23
- ▶ 10.28
- ▶ Cannot be calculated from the given data

answer required

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

If you deposit Rs. 12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

- ▶ Rs. 82,168.44
- ▶ Rs. 71,450.82
- ▶ Rs. 768,901.12
- ▶ **Rs. 668,609.67**

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

Which of the following types of bonds pays no annual interest to the holder, but is sold at discount below the par value?

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond

▶ **A zero coupon bond**

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

Which of the following is the rate of return earned on a bond if held till maturity?

- ▶ Yield-to-call
- ▶ Coupon payment
- ▶ **Yield-to-maturity**
- ▶ Sinking fund yield

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

Which one of the following statements best describes the relationship between market interest rates and bond prices?

- ▶ Market interest rates and bond prices move in the same direction
- ▶ **Market interest rates and bond prices move in opposite directions**
- ▶ Sometimes move in the same direction, sometimes in opposite directions
- ▶ Market interest rate and bond prices have no relationship with each other

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

When the market's required rate of return for a particular bond is much less than its coupon rate, the bond will be selling at which one of the following?

- ▶ **At premium**
- ▶ At discount
- ▶ At par
- ▶ Cannot be determined without more information

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

Which of the following techniques of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

- ▶ Technical Analysis
- ▶ **Fundamental Analysis**
- ▶ Constant Growth Model
- ▶ No Growth Model

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

In which of the following situations market price of a security will move down?

- ▶ **When market price of the security is above the intrinsic value of the security**
- ▶ When market price of the security is equal to the intrinsic value of the security
- ▶ When market value of the security is equal to the face value of the security
- ▶ When market price of the security is below the intrinsic value of the security

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

Which of the following could be used to calculate the cost of common equity?

- ▶ Interpolation method
- ▶ Dividend discount model
- ▶ **YTM (Yield-to-Maturity) method**
- ▶ Capital structure valuation

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

Which of the following is a long-term source of financing for a firm?

- ▶ **Corporate bonds**
- ▶ Money market instruments
- ▶ Trade credit
- ▶ Accounts payables

Ref: Bonds provide the borrower with external funds to finance long-term investments, or, in the case of government bonds, to finance current expenditure

http://en.wikipedia.org/wiki/Bond_%28finance%29

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

Which of the following focuses on long-term investment decision-making process?

- ▶ Working Capital Management
- ▶ **Capital Budgeting**
- ▶ Cash Budgeting
- ▶ None of the given options

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

Since the capital budgeting techniques use cash flows instead of accounting flows, therefore, the financial manager must add back which one of the following to the analysis?

- ▶ The cost of fixed assets
- ▶ The cost of accounts payable
- ▶ Investments
- ▶ **Depreciation**

Ref: Ref: http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

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

Which of the following capital budgeting methods focuses on firm's liquidity?

- ▶ Internal Rate of Return
- ▶ **Payback method**
- ▶ Net Present Value

- ▶ None of the given options

Ref: http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

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

When faced with mutually exclusive options, which project should be accepted under the 'Payback Method'?

- ▶ The one with the longest payback period
- ▶ The one with the shortest Payback period
- ▶ **It doesn't matter because the payback method is not theoretically correct**
- ▶ None of the given options

Ref: http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question No: 41 (Marks: 5)

A manufacturing concern is able to borrow an amount of Rs.1

MIDTERM EXAMINATION

Fall 2009

FIN622- Corporate Finance (Session - 4)

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

Following are amongst the three main areas of Finance **EXCEPT**:

- ▶ Financial institutions
- ▶ Investments
- ▶ **Accounting**
- ▶ Financial management

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

Which one of the following is an offering in which the shares of a company are offered to a limited number of investors?

- ▶ Initial Public Offering
- ▶ **Private Placement**
- ▶ Direct Public Offering
- ▶ Primary Offering

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

If you want to earn 8 percent, approximately how much should you pay for a security which matures in one year at Rs. 1,000?

- ▶ Rs. 1,080
- ▶ Rs. 940
- ▶ Rs. 920
- ▶ **Rs. 926**

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

When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at which of the following?

- ▶ At discount
- ▶ **At premium**
- ▶ At par value
- ▶ At indeterminate price

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

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

- ▶ **Sensitivity Analysis**
- ▶ Fundamental Analysis
- ▶ Technical Analysis
- ▶ Trend Analysis

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

For a firm with a Degree of Operating Leverage of 3.5, an increase in sales of 6% will:

- ▶ Increase pre-tax profits by 3.5%
- ▶ Decrease pre-tax profits by 3.5%
- ▶ **Increase pre-tax profits by 21.0%.**
- ▶ Increase pre-tax profits by 1.71%.

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

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.

- ▶ **Degree of operating leverage**
- ▶ Degree of profit leverage
- ▶ Degree of total leverage
- ▶ Degree of financial leverage

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

Suppose a stock is selling today for Rs.60 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.66.00. what is the capital gain yield on the stock?

- ▶ 7%
- ▶ 8%
- ▶ 9%
- ▶ 10%

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

Which of the following is considered as a risk free financial asset?

- ▶ **Government T-bills**
- ▶ Junk bonds
- ▶ Preferred stock
- ▶ Secured bonds

Ref: <http://www.investopedia.com/terms/r/riskfreeasset.asp>

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

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

- ▶ Normal stocks
- ▶ Aggressive stocks
- ▶ **Defensive stocks**
- ▶ Income stocks

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

Which of the following is known as market portfolio?

- ▶ A portfolio consists of all risk free securities available in the market
- ▶ A portfolio consists of securities of the same industry
- ▶ A portfolio consists of all aggressive securities available in the market
- ▶ **A portfolio consists of all securities available in the market**

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

What will be the risk premium if the market portfolio has an expected return of 10% and the risk free rate is 4%?

- ▶ 4%
- ▶ 5%
- ▶ **6%**
- ▶ 7%

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

Which of the following statements is true regarding Weighted Average Cost of Capital (WACC)?

- ▶ WACC of a levered firm is greater than that of an un-levered firm
- ▶ WACC of a levered firm is lesser than that of an un-levered firm
- ▶ **WACC of a levered firm is equal to that of an un-levered firm**
- ▶ An Un-levered firm has zero WACC.

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

XYZ Airlines will pay a Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

- ▶ **9%**
- ▶ 4%
- ▶ 5%
- ▶ 7%

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

A Pure Play method of selecting a discount rate is most suitable in which of the following situations?

- ▶ When the intended investment project has a Non-conventional stream of cash flows
- ▶ When the intended investment project is a replacement project
- ▶ **When the intended investment project belongs to industry other than the firms operating in**
- ▶ When the intended investment project has a conventional stream of cash flows

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

A Levered firm has a lower weighted average cost of capital as compare to an Un-levered firm because of which of the following?

- ▶ **Interest tax shield**
- ▶ Low level of financial risk
- ▶ Low level of business risk
- ▶ Low level of systematic risk

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

ABC Corporation declared 10% dividend on its shares. A person purchased some shares of this corporation after the dividend was announced. If he is entitled to receive the declared dividend, his shares would be categorized as which of the following?

- ▶ **Ex-Dividend**
- ▶ Cum-Dividend
- ▶ Stock-Dividend
- ▶ Cash Dividend

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

Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?

- ▶ **Stock Dividend**
- ▶ Cum Dividend
- ▶ Ex Dividend
- ▶ Extra Dividend

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

Which of the following firms would have the highest financial leverage?

- ▶ A firm having debt-to-equity ratio of 30:70
- ▶ A firm having debt-to-equity ratio of 40:60
- ▶ A firm having debt-to-equity ratio of 50:50
- ▶ **A firm having debt-to-equity ratio of 60:40**

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

Which of the following is the principal advantage of high debt financing?

- ▶ **Tax savings**
- ▶ Low Bankruptcy costs
- ▶ Minimum financial risk
- ▶ Low financial leverage

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

- ▶ **Value of a firm is independent of its capital structure**
- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital

- ▶ Value of a firm is independent on its level of equity finances

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

Which of the following is a disadvantage of Capital Asset Pricing Model?

- ▶ It considers market risk
- ▶ It can be used for listed companies
- ▶ It can be used for non-listed companies
- ▶ **It is based on past data**

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

Which of the following shows the reward to risk ratio of a Security A?

- ▶ **Expected return of A (r_A) – risk free return / beta of A**
- ▶ Expected return of A (r_A) – risk free return / required return of A
- ▶ Expected return of A (r_A) – beta of A / risk free return

- ▶ Risk free return - expected return of A (r_A) / beta of A

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

In Capital Assets Pricing Model, which of the following shows time value of money?

- ▶ Beta of the security
- ▶ **Risk free rate of return**
- ▶ Risk premium
- ▶ Market rate of return

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

Which of the following statements is **TRUE** regarding Balance Sheet of a firm?

- ▶ It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
- ▶ It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
- ▶ **It shows the firm's financial position at a specific point in time.**
- ▶ It summarizes the firm's revenues and expenses over an accounting period.

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

Suppose that a corporation of which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. How much of your investment would you get back?

- ▶ A proportionate share of bondholder claims based on the number of common shares that you own
- ▶ A proportional share of all creditor claims based on the number of common shares that you own
- ▶ An amount that could, at most, equal what you originally paid for the shares of common stock in the corporation
- ▶ **Nothing at all**

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

The gross profit margin is unchanged, but the net profit margin declined over same period. This could have happened due to which one of the following reasons?

- ▶ Cost of goods sold increased relative to sales
- ▶ Sales increased relative to expenses
- ▶ **The tax rate has been increased**
- ▶ Dividends were decreased

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

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. What do these ratios tell about this company?

- ▶ The company will be viewed as having high creditworthiness
- ▶ **The company has greater than average financial risk when compared to other firms in its industry**
- ▶ The company will not experience any difficulty with its creditors
- ▶ The company has less liquidity than other firms in the industry

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

If a creditor wants to know about the bill payment status of a potential customer, the creditor could look at which one of the following ratios?

- ▶ Current ratio
- ▶ Acid ratio
- ▶ **Average age of accounts payable**
- ▶ Average age of accounts receivable

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

Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end the end of four years?

- ▶ Rs.9,624
- ▶ Rs.10,208
- ▶ **Rs.9,728**
- ▶ Rs.10,880

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

The present value of Rs.100 per year received for 10 years discounted at 8 percent is closest to which of the following amounts?

- ▶ Rs.177
- ▶ Rs.362
- ▶ Rs.425
- ▶ **Rs.671**

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

How many years will it take for Rs.152,000 to grow to be Rs. 405,000 if it is invested in an account with an annual interest rate of 10%?

- ▶ 13.68
- ▶ 8.23
- ▶ **10.28**
- ▶ Cannot be calculated from the given data

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

Which of the following types of bonds pays no annual interest to the holder, but is sold at discount below the par value?

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond
- ▶ **A zero coupon bond**

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

Which of the following is a financial asset?

- ▶ A building
- ▶ **Bonds**
- ▶ Inventories
- ▶ Equipments

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

An investor buys a bond that will pay the interest amount of Rs.60 annually, forever. Which of the following would be the present value of the bond if there is exactly one year remaining until the next interest payment and the investor's required annual return is 5 percent?

- ▶ **Rs. 1,200**
- ▶ Rs. 800
- ▶ Rs. 600
- ▶ Rs. 1,000

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level
- ▶ It reduces the break-even level. Doubtful
- ▶ **It has no effect on the break-even level.**
- ▶ This cannot be determined without knowing the length of the investment horizon.

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

In Capital Assets Pricing Model, which of the following shows time value of money?

- ▶ Beta of the security
- ▶ **Risk free rate of return**
- ▶ Risk premium
- ▶ Market rate of return

Ref: <http://www.answers.com/topic/capital-asset-pricing-model>

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

▶ **Value of a firm is independent of its capital structure**

- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital
- ▶ Value of a firm is independent on its level of equity finances

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

In which of the following dividend policies, the amount of dividend is relatively fixed?

▶ **Constant payout ratio policy**

- ▶ Hybrid dividend policy
- ▶ Residual dividend policy
- ▶ Stable dividend policy

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

Which of the following risks increases as the debt level of a business increases?

▶ **Financial risk**

- ▶ Operating risk
- ▶ Business risk
- ▶ Investment risk

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

Which of the following risks is independent of capital structure of a firm?

▶ Financial risk

▶ **Systematic risk**

- ▶ Business risk
- ▶ Total risk

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

Which of the following *best* define the term 'Capital Structure'?

- ▶ The proportion of equity used by a firm
- ▶ **The proportion of debt and equity capital used by a firm**
- ▶ The proportion of long-term liabilities used by a firm
- ▶ The proportion of short-term bank loan used by a firm

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

Which of the following is tax deductible?

- ▶ Dividend on preferred shares
- ▶ Dividend on common stocks
- ▶ Coupon payments on bonds
- ▶ **Capital gain on common stocks** **DOUBTED**

MIDTERM EXAMINATION
Spring 2009
FIN622- Corporate Finance (Session - 5)

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

Which of the following could be used to calculate the cost of common equity?

- ▶ Interpolation method
- ▶ **Dividend discount model**
- ▶ YTM method
- ▶ Capital structure valuation

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
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- ▶ Value of a firm is independent on its level of equity finances

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

In which of the following dividend policies, the amount of dividend is relatively fixed?

- ▶ **Constant payout ratio policy**
- ▶ Hybrid dividend policy
- ▶ Residual dividend policy

- ▶ Stable dividend policy

□ A **constant payout ratio policy** is a **policy** of paying a **FIXED** percentage of a firm's earnings as dividends in each period. Such a **policy** is likely to result in wildly fluctuating dividends. As a result, only a small percentage of **dividend** paying firms follow such a **policy**.

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

Which of the following risks increases as the debt level of a business increases?

- ▶ **financial risk**
- ▶ Operating risk
- ▶ Business risk
- ▶ Investment risk

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

Which of the following risks is independent of capital structure of a firm?

- ▶ Financial risk
- ▶ Systematic risk
- ▶ Business risk
- ▶ **Total risk** DOUBT

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

Which of the following *best* define the term 'Capital Structure'?

- ▶ The proportion of equity used by a firm
- ▶ **The proportion of debt and equity capital used by a firm**
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- ▶ Dividend on preferred shares
- ▶ Dividend on common stocks
- ▶ Coupon payments on bonds
- ▶ **Capital gain on common stocks**

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

Which of the following is determined by variance of an investment's returns?

- ▶ Volatility of the rates of return.
- ▶ Probability of a negative return.
- ▶ Historic return over long periods.

▶ Average value of the investment.

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

Which of the following best illustrates the problem imposed by capital rationing?

▶ **Accepting projects with the highest NPVs first**

- ▶ Accepting projects with the highest IRRs first
- ▶ Bypassing projects that have positive NPVs
- ▶ Bypassing projects that have positive IRRs

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

Market demand allowed a company, to raise its price by 20% to \$60. What is the new level of break-even revenues if fixed charges including depreciation are \$1 million and variable costs were 70% of the old price?

- ▶ \$2,000,000
- ▶ \$2,400,000
- ▶ \$2,857,143
- ▶ \$3,333,333

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

Which of the following capital budgeting methods states the project return as a percentage?

- ▶ Payback period
- ▶ Net present value
- ▶ **Internal Rate of Return** fm bok
- ▶ None of the given options

is always quoted in terms of percentage,

which makes it comparable to the other market interest rates or the inflation rate

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

Which of the following capital budgeting methods focuses on firm's liquidity?

- ▶ **None of the given options**
- ▶ Payback method
- ▶ Net Present Value
- ▶ Internal Rate of Return

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

In which of the following situations a project is acceptable?

- ▶ When a project has conventional cash flows patterns
- ▶ When a project has a non-conventional cash flow pattern
- ▶ When a project has a discounted rate higher than the inflation rate
- ▶ When a project has a positive net present value

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

Which of the following statements is Correct regarding the fundamental analysis?

- ▶ Fundamental analysts use only Economic indicators to evaluate a stock
- ▶ Fundamental analysts use only financial information to evaluate a company's stocks
- ▶ Fundamental analysts use financial and non-financial information to evaluate a company's stocks
- ▶ Fundamental analysts use only non-financial information to evaluate a company's stocks

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

You are considering buying common stock in Grow On, Inc. The firm yesterday paid a dividend of \$7.80. You have projected that dividends will grow at a rate of 9.0% per year indefinitely. If you want an annual return of 24.0% what is the most you should pay for the stock now?

- ▶ \$52.00
- ▶ \$56.68
- ▶ \$32.50
- ▶ \$35.43

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

If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity.)

- ▶ $P_0 < \text{par}$ and $YTM < \text{the coupon rate}$.
- ▶ $P_0 < \text{par}$ and $YTM > \text{the coupon rate}$.
- ▶ $P_0 > \text{par}$ and $YTM > \text{the coupon rate}$.
- ▶ $P_0 > \text{par}$ and $YTM < \text{the coupon rate}$.

<http://web.utk.edu/~jwac/lowi/mcquiz/mc4.html>

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

Which one of the following is a long-term contract under which a borrower agrees to make payments of interest and principal on specific dates?

- ▶ Common stock.
- ▶ Preferred stock
- ▶ Equity contract.
- ▶ **Bond.**

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

Which of the following transactions affects the acid-test ratio?

- ▶ Receivables are collected.
- ▶ **Inventory is liquidated for cash.**
- ▶ New common stock is sold and used to retire a debt issue.
- ▶ A new common stock issue is sold and equipment purchased.

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

Which of the following would be a consequence of a high Inventory Turnover Ratio?

- ▶ **Too low a level of inventory and frequent stock-outs.**
- ▶ Seasonal elements peculiar to the business.
- ▶ **Efficient inventory management**
- ▶ Any of the given option.

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

Which of the following statements (in general) is correct?

- ▶ A low receivables turnover is desirable.
- ▶ **The lower the total debt-to-equity ratio, the lower the financial risk for a firm.**
- ▶ An increase in net profit margin with no change in sales or assets means a poor ROI.
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

<http://web.utk.edu/~jwachow/mcquiz/mc6.html>

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

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. What do these ratios tell about this company?

- ▶ The company will be viewed as having high creditworthiness
- ▶ **The company has greater than average financial risk when compared to other firms in its industry**
- ▶ The company will not experience any difficulty with its creditors
- ▶ The company has less liquidity than other firms in the industry

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

In which one of the following markets the bonds of a Corporation shall be traded now who were issued 10 years back?

- ▶ Primary market
- ▶ Secondary market
- ▶ Money Market
- ▶ All of the above

Question No: 31 (Marks: 5)

A Company had the following data, extracted from its financial statements for the year ending June 30, 2008:

- a) Current Ratio = 2
- b) Acid Ratio = 1.5
- c) Current Liabilities = \$500,000
- d) Inventory Turnover = 5
- e) Gross Profit Margin = 20 percent

What were its sales for the year?

Question No: 32 (Marks: 10)

Bank A pays 6.2% interest compounded semiannually and **Bank B** pays 6% interest, compounded monthly. Which bank offers the higher effective annual rate?