

# Almost 300 Solved MCQs of ACC501

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

1. The difference between the return on a risky investment and that on a risk-free investment.
  - A. Risk Return
  - B. **Risk Premium**
  - C. Risk Factor
  - D. None of the above
2. A group of assets such as stocks and bonds held by an investor.
  - A. **Portfolio**
  - B. Capital Structure
  - C. Budget
  - D. None of the above
3. If the variance or standard deviation is larger then the spread in returns will be:
  - A. Less
  - B. **More**
  - C. Same
  - D. None of the Above
4. The following risk is entirely wiped out by Diversification.
  - A. Systematic Risk
  - B. **Unsystematic Risk**
  - C. Portfolio Risk
  - D. Total Risk
5. The objective for using the concept of Diversification is to :
  - A. Minimize the Risk
  - B. Maximize the return
  - C. **A & B**
  - D. None of the Above
6. While studying the relationship in risk and return, It is commonly known that:
  - A. Higher the risk, lower the return
  - B. Lower the risk, higher the return
  - C. **Higher the risk, higher the return**
  - D. None of the above

7. This type of risk affects almost all types of assets.

- A. **Systematic Risk**
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. **7,500**
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. **8.00%**
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. **28%**
- C. 32%
- D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. **Primary market**
- C. Capital market
- D. Money market

2. In financial statement analysis, shareholders focus will be on the:

- A. Liquidity of the firm
- B. Long term cash flow of the firm

C. Profitability and long term health of the firm

D. Return on investment

3. The statement of cash flows helps users to assess and identify all of the following except:

A. The impact of buying and selling fixed assets.

B. The company's ability to pay debts, interest and dividends.

C. A company's need for external financing.

D. The company's reliance on capital leases.

4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?

A. Fall

B. Rise

C. Remain unchanged

D. None of the given option

5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?

A. 1.42215

B. 2.75886

C. 3.75886

D. 4.08998

6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?

A. Compounded daily

B. Compounded quarterly

C. Compounded semiannually

D. Compounded annually

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?

A. a.Rs. 200 million

B. b.Rs.240 million

C. c.Rs.275 million

D. d.Rs.290 million

8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?

A. 6.12 times

B. 7.11 times

C. 8.11 times

D. 9.11 times

9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?

- A. 20.00%
- B. 20.50%
- C. 21.00%
- D. 21.99%

10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?

- A. Rs.60, 000
- B. Rs.64, 000
- C. Rs.72, 000
- D. Rs.74, 000

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

- a. Rs.60
- b. Rs.64
- c. Rs.68
- d. Rs.74

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

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. 37%
- d. 47%

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

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000
- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%. Its annual depreciation is Rs.5, 000, 000. The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options
  
8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:

- a. -1
- b. 0
- c. 1
- d. All of the given options

9. Average Accounting Return is a measure of accounting profit relative to:

- a. **Book value**
- b. Intrinsic value
- c. Cost
- d. Market value

10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:

- a. Erosion
- b. Piracy
- c. Cannibalism
- d. **All of the given options**

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

**a) Operating Cycle**

- b) Cash Cycle
- c) Receivable period
- d) Inventory period

2. **Which of the following does not affect cash cycle of a company?**

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

3. **Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- a) 100,000
- b) **97,000**
- c) 103,000
- d) 50,000

4. **A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?**

- a) 3.347 approximately
- b) 5.347 approximately
- c) **2.347 approximately**
- d) 6.253 approximately

5. **During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?**

- a) 234 days
- b) **223 days**

- c) 245 days
- d) 230 days

6. Which of the following is the cheapest source of financing available to a firm?

- a) Bank loan
- b) Commercial papers
- c) Trade credit**
- d) None of the given options.

7. Which of the following illustrates the use of a hedging (or matching) approach to financing?

- a) Short-term assets financed with long-term liabilities.
- b) Permanent working capital financed with long-term liabilities.**
- c) Short-term assets financed with equity.
- d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture

8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.

- a) Cash discount**
- b) Quantity discount
- c) Float discount
- d) All of the given options

9. If a firm has a net float less than zero, then which of the following statements is true about the firm.

- a) The firm's disbursement float is less than its collection float.**
- b) The firm's collection float is equal to zero.
- c) The firm's collection float is less than its disbursement float.
- d) None of the given options.

10. Financing a long-lived asset with short-term financing would be

- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of  $\frac{2}{3}$ . You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%

- b) 16.13%
- c) 15.80%**
- d) 13.14%

3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?

- a) They have a direct relationship
- b) They have an indirect relationship**
- c) They have spontaneous relationship
- d) None of the given options

4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.

- a) Financial risk**
- b) Portfolio risk
- c) Operating risk
- d) Market risk

5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?

- a) \$202,200,000
- b) \$247,500,000**
- c) \$283,500,000
- d) \$321,250,000

6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?

- a) 13.5%
- b) 17.75%
- c) 15.79%**
- d) 17.13%

7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a

- a) Source of cash
- b) Use of cash
- c) Neither of the source of cash nor a use of cash**

- d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**
  - d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

- E. Sunk cost
- F. Opportunity cost**
- G. Financing cost
- H. All of the given options

2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?

- E. 13.07 %
- F. 15.67 %
- G. 16.00 %
- H. 18.80 %**

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. **Portfolio**
  - F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. **Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. **62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. **All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. **Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. **2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model
  - I. **Dividend Growth Model**
  - F. Dividend Policy Model

G. All of the given options

10. Which of the following is not a quality of IRR ?

E. Most widely used

J. **Ideal to rank the mutually exclusive investments**

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

I. Ordinary Annuity

J. **Perpetuity**

K. Dividend

L. Interest

2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?

I. 15.00 %

J. 15.34 %

K. **15.87 %**

L. 16.42 %

3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

L. **loan; issuer**

4. When the interest rates fall, the bond is worth \_\_\_\_\_.

I. **More**

J. Less

K. Same

L. All of the given options.

5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?

I. 30 %

J. 50 %

K. **70 %**

L. 90 %

6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:

- I. Increase Profit Margin
- J. Increase Total Assets Turnover
- K. Sell new shares
- L. All of the given options.

7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.

- I. Present Value
- J. Future Value
- K. Capital Gain
- L. Net Profit

8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?

- K. Rs. 319.45
- L. Rs. 390.75
- M. Rs. 419.45
- N. Rs. 463.75

9. The sensitivity of Interest Rate Risk of a bond directly depends upon:

- H. Time to maturity
- I. Coupon rate
- J. A and B
- K. None of the given options

10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?

- H. 8 %
- I. 10 %
- J. 12 %
- K. 14 %

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

1. In the formula  $k_e \geq (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

2. If you owned 100 shares of a company and there are three directors to be elected. How much votes you would have as per cumulative voting procedure?

- A. 100 Votes
- B. 200 Votes

**C. 300 Votes**

D. 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

A. Rs. 30

**B. Rs. 40**

C. Rs. 50

D. Rs. 60

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

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

B. These stocks have dividend priority over common stocks

C. These stocks have stated liquidating value

D. These bonds hold credit ratings much like bonds

**5. A project has an initial investment of Rs. 400,000. What would be the NPV for the project if it has a profitability index of 1.15?**

A. Rs. 30000

B. Rs. 40,500

C. Rs. 50,000

**D. Rs. 60,000**

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

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

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

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

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

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

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

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

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

**Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a project for ABC Company that the company is planning to undertake. He has suggested that the project is feasible.**

**Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is not feasible.**

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

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

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

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

D. Opportunity cost in both Case I and Case II

**8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?**

A. 22.85 %

B. 25.16 %

C. 30.52 %

**D. 34.29 %**

**9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B then what will be the weight of Asset B in your portfolio?**

A. 0.30

B. 0.40

C. **0.60**

D. 0.75

**10. Which of the following set of cash flows represents the change in the firm's total cash flow that occurs as direct result of accepting the project?**

A. Relevant Cash Flows

B. **Incremental Cash Flows**

C. Negative Cash Flows

D. All of the given option

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

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

A. It takes risk into account

B. It takes time into account

C. It takes compound interest into account

D. **All of the given options**

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

A. More than Rs. 100

B. Equal to Rs. 100

C. **Less than Rs. 100**

D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

A. **Rs. 29,454**

B. Rs. 34,325

C. Rs. 39,272

D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

A. Compounding quarterly

B. **Compounding monthly**

C. Compounding semi-annually

D. Compounding annually

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

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

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

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

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

**6. What will be the value to you of a Rs. 2,000 face-value bond with an 8% coupon rate when your required rate of return is 12% and time till maturity is 5 years?**

A. Rs. 1,556

B. **Rs. 1,712**

C. Rs. 2,082

D. Rs. 2,420

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

**the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?**

**A. Convertible Bonds**

B. Income Bonds

C. Put Bonds

D. None of the given options

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

A. Move in the same direction

**B. Move in the opposite direction**

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

D. Have no relation with each other

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

A. Less

B. Zero

**C. More**

D. None of the given options

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

A. 6.639%

B. 8.251%

C. 10.00%

**D. 11.43%**

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

**Select correct option:**

Sunk

Opportunity

**Highlight the correct option:**

1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

- a. **Time interest earned**
- b. Cash coverage ratio
- c. Profit margin ratio
- d. None of the given option

2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?

- a. Return on short as well as long term investments
- b. Return on equity and return on debt

- c. Return on equity and profit margin  
d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase  
b. Decrease  
c. Remain unchanged  
d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times  
b. 0.58 times  
c. 0.78 times  
d. 0.98 times
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- a. Rs. 2.5 million  
b. Rs. 3 million  
c. Rs. 3.5 million  
d. Rs.4.5 million
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.
- a. 9.414 %  
b. 10.414 %  
c. 11.412 %  
d. 12.414 %
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions  
b. Rs.250 millions

c. Rs.350 millions

d. Rs.500 millions

8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?

a. 12.29%

b. 14.29%

c. 16.29%

d. 18.92%

9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?

a. 25 %

b. 35 %

c. 29%

d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

a. Rs.251.415 millions

b. Rs.261.415 millions

c. Rs.271.415 millions

d. Rs.281.415 millions

Choose and highlight the right option:

1. *ROE in DuPont identity is affected by:*

a. *Operating efficiency*

b. *Asset usage efficiency*

c. *Financial leverage*

d. *All of the given options*

2. *A decrease in the percentage of net income paid out as a dividend, will increase the:*

a. *Return on assets ratio*

b. *Retention ratio*

c. *Leverage ratio*

d. *Profit margin*

3. *Which of the following does not change Current ratio of a business:*

a. *Efficient usage of current assets*

b. *Change in the nature of the firm*

c. *Change in Accounting method of the firm*

d. *Change in the management of the firm*

4. **Present value factor is:**

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

5. **Depreciation expense is:**

- a. *Operating expense*
- b. *Investing expense*
- c. *Financing expense*
- d. *All of the given options*

6. **Internal growth rate tell how rapidly:**

- a. *The firm grows*
- b. *Sales of the firm grows*
- c. *Profit of the firm grows*
- d. *None of the given options*

7. **You can determine the number of periods (n) in a present value calculation, if you know:**

- a. *Future amount*
- b. *Present value*
- c. *Interest rate*
- d. *All of the given options*

8. **Which one of the present value factor is larger?**

- a. *PV of 1 factor for 10%*
- b. *PV of 1 factor for 12%*
- c. *Both have the same effect*
- d. *It cannot be determined*

9. **If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?**

- a. *5.27 years*
- b. *6.27 years*
- c. *7.27 years*
- d. *7.57 years*

10. **The future value of first Rs. 100 in 2 years at 8% discount is:**

- a. *Rs. 116.64*
- b. *Rs. 111.64*
- c. *Rs. 164.64*
- d. *Rs. 164.61*

Total marks: 10

1. **Investing activities include:**

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*
- d. *Both a & c*

2. *Changes in cash from financing are "cash in" when:*
- Capital is raised*
  - Assets increased*
  - Liabilities decreased*
  - Cash withdrawn*
3. *Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:*
- Cash from operations activities*
  - Cash from financing activities*
  - Cash from investing activities*
  - None of the given options*
4. \_\_\_\_\_ *are short-term, temporary investments that can be readily converted into cash.*
- marketable securities*
  - Cash equivalents*
  - Treasury bills*
  - All of the given options*
5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- Actual cash income*
  - Un earned income*
  - Coming year income*
  - Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- Has performed in the past*
  - Might perform in the future*
  - Both a & b*
  - None of the given options*
7. *The current ratio is also known as:*
- Working capital ratio*
  - Leverage ratio*
  - Turnover ratio*
  - None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- Gearing*
  - Acid test ratio*

- c. *Working capital management*
- d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. **Ann is the principal and Mary is the agent.**
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

$$\$ 50,000 \quad \times 15\% \quad = \quad \$ 7,500$$

$$(\$ 75,000 - 50,000) \times 25\% \quad = \quad 6,250$$

$$(\$ 100,000 - 75,000) \quad \times 34\% \quad = \quad 8,500$$

$$(\$ 200,000 - 100,000) \quad \times 39\% \quad = \quad \underline{39,000}$$

$$\underline{\$ 61,250}$$

Total tax is \$61,250.

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

- a. 39%
- b. 34%
- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

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

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**
- d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

1. A standardized financial statement presenting all items of the statement as a percentage of total is:

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement

d. a balance sheet

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

a. Profitability Ratios

b. Liquidity ratios

c. Debt ratios

d. Turnover ratios

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

e. 0

f. 0.2

g. 0.1

h. At least one

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

a. Times Interest Earned (TIE) Ratios

b. Liquidity Ratios

c. Debt Ratios

d. Asset Management Ratios

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

a. operating efficiency (as measured by profit margin)

b. asset use efficiency (as measured by total assets turnover)

c. financial Leverage (as measured by equity multiplier)

d. all of the given options (a, b and c)

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

a. comparison

b. identification

c. calculation

d. liability

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

a. an ordinary annuity

- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

a. **21.15%**

- b. 12%
- c. 18%
- d. **30%**

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

a. **\$9,806.56**

- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

**1. \_\_\_\_\_ is considered as bottom line in Income Statement?**

- M. Total Assets
- N. Total Liabilities
- O. **Net Profit**
- P. Gross Profit

**2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?**

- M. Income Statement
- N. **Balance Sheet**
- O. Cash Flow Statement
- P. Owner's Equity Statement

**3. \_\_\_\_\_ involves the sale of used securities from one investor to**

another?

M. Primary Market

N. **Secondary Market**

O. Tertiary Market

P. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

M. **Liquidity**

N. Financial Leverage

O. Profitability

P. Market Value

5. The process of planning and managing a firm's long-term investments is called:

M. Planning Process

N. Capital Structure

O. **Capital Budgeting**

P. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

M. 6.37 %

N. 8.37 %

O. **15.7 %**

P. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

M. 8 times

N. **9 times**

O. 10 times

P. 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

O. **Total Assets**

P. Total Liabilities

Q. Total Capital

R. Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

L. Sole Proprietorship

M. Partnership

N. **Corporation**

O. None of the given options

10. Which one of these is considered as a non-cash item?

L. Inventory

M. Accounts Payable

N. Accounts Receivable

O. **Depreciation**

1. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

**All of the given options**

3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar**

Limit

Surplus

4. Which of the following is the acronym for GAAP?

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

5. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?

Select correct option:

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

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

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

6. Quick Ratio is also known as:

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

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

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

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

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

9. Which of the following terms refers to the costs to store and finance the assets?

Select correct option:

Carrying costs

Shortage costs

Storing costs

financing costs

10. Which one of the following statement is INCORRECT regarding MACRS depreciation?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes.

11.

Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

Annual depreciation remains constant every year even by using different rates.

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

12. Which of the following statement is CORRECT regarding compound interest?

Select correct option:

It is the most basic form of calculating interest.

It earns profit not only on principal but also on interest.

It is calculated by multiplying principal by rate multiplied by time.

It does not take into account the accumulated interest for calculation.

13. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

14. Time value of money is an important finance concept because:

Select correct option:

It takes risk into account

It takes time into account

It takes compound interest into account

All of the given options

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

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

16. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

17. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

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

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

NPV is greater than Zero  
NPV is equal to Zero  
NPV is less than Zero  
All of the given options

19. Which of the following is (are) a non-cash item(s) ?  
Select correct option:

Revenue  
Expenses  
Depreciation  
All of the given options

20. Which of the following is NOT a shortcoming of Payback Rule?  
Select correct option:

Time value of money is ignored  
It fails to consider risk differences  
Simple and easy to calculate  
None of the given options

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

Rs. 1,000 because it has the higher future value  
Rs. 1,000 because you receive it sooner  
Rs. 1,050 because it is more money  
Either because both options are of equal value

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

7.00 percent  
7.12 percent  
7.19 percent  
7.23 percent

23. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?  
Select correct option:

Sole-proprietorship  
General Partnership

Limited Partnership  
Corporation

24. Business risk depends on which of the following risk of the firm's assets ?  
Select correct option:

- Systematic Risk
- Diversifiable Risk
- Unsystematic Risk
- None of the given options

25. Which of the following type of risk can be eliminated by diversification?  
Select correct option:

- Systematic Risk
- Market Risk
- Unsystematic Risk
- None of the given options

26. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?  
Select correct option:

- Profit Margin
- Return on Assets
- Return on Equity
- Debt-Equity Ratio

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

- Financial institutions
- International finance
- Investments
- All of the given options

28. Which of the following is the return that firm's creditors demand on new borrowings ?  
Select correct option:

- Cost of debt
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings

29. Systematic Risk is also known as:  
Select correct option:

- Diversifiable Risk
- Market Risk
- Residual Risk
- Asset-specific Risk

30. ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?  
Select correct option:

- 70
- 120
- 200
- 280

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

- a account receivable**
- b operation cycle
- c inventory period
- d none of above

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

- a open bank account
- b commercial draft
- c promisory note
- d banker acceptance**

3. Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that:  
Select correct option:

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

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

- a 5%
- b 5.25 %**
- c 6%
- d 8%

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

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

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

- a balance sheet
- b income statement**
- c cash flow
- d none of above

8. Which of the following character is not a systematic risk?

Market risk  
Interest risk  
Inflation risk

**Strike call in a company**

9. A company has a two director and 1 shareholder which hav 25 power of share the voter for director is  
a 100  
b150  
**c50**  
d25

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

Select correct option:

- Accepted; rejected  
Accepted; accepted  
Rejected; rejected  
**Rejected; accepted**

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

Select correct option:

- IRR (Internal Rate of Return)  
MIRR (Modified Internal Rate of Return)  
**WACC (Weighted Average Cost of Capital) 146**  
AAR (Average Accounting Return)

12. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

- Cost of debt pg 143**  
Cost of preferred stock  
Cost of common equity  
Cost of retained earnings

13. In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

- Mutually exclusive  
Dependent  
**Independent**  
Correlated

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

Select correct option:

- 10.63%  
20.20%  
35.12%  
**41.30%**

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

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

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

a.68

**b 18**

c 80

d 118

ACC501 All Solved Mid  
Term MCQs

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

1. **The difference between the return on a risky investment and that on a risk-free investment.**
  - A. Risk Return
  - B. Risk Premium**
  - C. Risk Factor
  - D. None of the above
2. **A group of assets such as stocks and bonds held by an investor.**
  - A. Portfolio**
  - B. Capital Structure
  - C. Budget
  - D. None of the above
3. **If the variance or standard deviation is larger then the spread in returns will be:**
  - A. Less
  - B. More**
  - C. Same
  - D. None of the Above
4. **The following risk is entirely wiped out by Diversification.**
  - A. Systematic Risk
  - B. Unsystematic Risk**
  - C. Portfolio Risk
  - D. Total Risk
5. **The objective for using the concept of Diversification is to :**
  - A. Minimize the Risk
  - B. Maximize the return
  - C. A & B**
  - D. None of the Above
6. **While studying the relationship in risk and return, It is commonly known that:**
  - A. Higher the risk, lower the return
  - B. Lower the risk, higher the return
  - C. Higher the risk, higher the return**

## ACC501 All Solved Mid Term MCQs

D. None of the above

**7. This type of risk affects almost all types of assets.**

A. Systematic Risk

B. Unsystematic Risk

C. Total Risk

D. Portfolio Risk

**MCQ # 08 - 10 are based on the following data:**

**Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).**

**8. According to the given data, the Capital Gain will be:**

A. 10,500

B. 7,500

C. 10,000

D. 7,000

**9. According to the given data, the Dividend yield will be:**

A. 8.50 %

B. 6.25%

C. 8.00%

D. 6.67%

**10. According to the given data, Total Percentage Returns will be:**

A. 20%

B. 28%

C. 32%

D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

A. Secondary market

B. Primary market

## ACC501 All Solved Mid Term MCQs

- C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

## ACC501 All Solved Mid Term MCQs

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000
1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64
  - c. Rs.68
  - d. Rs.74

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

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. 37%
- d. 47%

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

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

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Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- a. -1
  - b. 0
  - c. 1
  - d. All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- a. **Book value**
  - b. Intrinsic value
  - c. Cost
  - d. Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- a. Erosion
  - b. Piracy
  - c. Cannibalism
  - d. **All of the given options**

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

- a) **Operating Cycle**
- b) Cash Cycle
- c) Receivable period
- d) Inventory period

2. **Which of the following does not affect cash cycle of a company?**

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

3. **Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- a) 100,000
- b) **97,000**
- c) 103,000
- d) 50,000

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4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- a) 3.347 approximately
  - b) 5.347 approximately
  - c) **2.347 approximately**
  - d) 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- a) 234 days
  - b) **223 days**
  - c) 245 days
  - d) 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- a) Bank loan
  - b) Commercial papers
  - c) **Trade credit**
  - d) None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- a) Short-term assets financed with long-term liabilities.
  - b) **Permanent working capital financed with long-term liabilities.**
  - c) Short-term assets financed with equity.
  - d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- a) **Cash discount**
  - b) Quantity discount
  - c) Float discount
  - d) All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- a) **The firm's disbursement float is less than its collection float.**
  - b) The firm's collection float is equal to zero.
  - c) The firm's collection float is less than its disbursement float.
  - d) None of the given options.
10. Financing a long-lived asset with short-term financing would be

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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- d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.
- E. Sunk cost
  - F. Opportunity cost**
  - G. Financing cost
  - H. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- E. 13.07 %
  - F. 15.67 %
  - G. 16.00 %
  - H. 18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. Portfolio**

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- F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. 62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. 2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model

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**I. Dividend Growth Model**

F. Dividend Policy Model

G. All of the given options

**10. Which of the following is not a quality of IRR ?**

E. Most widely used

**J. Ideal to rank the mutually exclusive investments**

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

**1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.**

I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

**2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?**

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

**3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

**4. When the interest rates fall, the bond is worth \_\_\_\_\_.**

**I. More**

J. Less

K. Same

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- L. All of the given options.
- 5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**
- I. 30 %
  - J. 50 %
  - K. 70 %**
  - L. 90 %
- 6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**
- I. Increase Profit Margin
  - J. Increase Total Assets Turnover
  - K. Sell new shares
  - L. All of the given options.**
- 7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**
- I. Present Value**
  - J. Future Value
  - K. Capital Gain
  - L. Net Profit
- 8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**
- K. Rs. 319.45
  - L. Rs. 390.75
  - M. Rs. 419.45**
  - N. Rs. 463.75
- 9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**
- H. Time to maturity
  - I. Coupon rate
  - J. A and B**
  - K. None of the given options
- 10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**
- H. 8 %**
  - I. 10 %

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J. 12 %

K. 14 %

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

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

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

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

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

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

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

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

**15% required rate of return?**

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

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

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

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

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

- A. Rs. 30000
- B. Rs. 40,500**
- C. Rs. 50,000
- D. Rs. 60,000

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

**( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows; ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

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

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

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

**suggested that the project is feasible.**

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

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

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

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

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. **Sunk Cost in both Case I and Case II**
- D. Opportunity cost in both Case I and Case II

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

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

**be the total percentage return?**

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. **34.29 %**

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

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

- A. 0.30
- B. 0.40
- C. **0.60**
- D. 0.75

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

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

- A. **Relevant Cash Flows**

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- B. Incremental Cash Flows**
- C. Negative Cash Flows**
- D. All of the given option**

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

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

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

**A. Convertible Bonds**

B. Income Bonds

C. Put Bonds

D. None of the given options

8. Interest rates and bond prices :

A. Move in the same direction

**B. Move in the opposite direction**

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

D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

A. Less

B. Zero

**C. More**

D. None of the given options

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

A. 6.639%

**B. 8.251%**

C. 10.00%

D. 11.43%

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

**Select correct option:**

Sunk

Opportunity

**Highlight the correct option:**

1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

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- a. **Time interest earned**
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
  
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
  - a. Return on short as well as long term investments
  - b. Return on equity and return on debt
  - c. **Return on equity and profit margin**
  - d. All of the given options
  
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
  - a. Increase
  - b. **Decrease**
  - c. Remain unchanged
  - d. None of the given option
  
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
  - a. 0.38 times
  - b. 0.58 times
  - c. **0.78 times**
  - d. 0.98 times
  
  
  
  
  
  
  
  
  
  
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions
  - b. Rs.250 millions
  - c. **Rs.350 millions**
  - d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- a. 12.29%
  - b. **14.29%**
  - c. 16.29%
  - d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- a. **25 %**

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- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**
  - a. Operating efficiency
  - b. Asset usage efficiency
  - c. Financial leverage
  - d. All of the given options
  
2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**
  - a. Return on assets ratio
  - b. Retention ratio
  - c. Leverage ratio
  - d. Profit margin
  
3. **Which of the following does not change Current ratio of a business:**
  - a. Efficient usage of current assets
  - b. Change in the nature of the firm
  - c. Change in Accounting method of the firm
  - d. Change in the management of the firm
  
4. **Present value factor is:**
  - a.  $(1+r)^t$
  - b.  $(1-r)^t$
  - c.  $1/(1+r)^t$
  - d.  $1/(1+r)^{1/t}$
  
5. **Depreciation expense is:**
  - a. Operating expense
  - b. Investing expense

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- c. Financing expense*
  - d. All of the given options*
- 6. **Internal growth rate tell how rapidly:**
  - a. The firm grows*
  - b. Sales of the firm grows*
  - c. Profit of the firm grows*
  - d. None of the given options*
- 7. **You can determine the number of periods (n) in a present value calculation, if you know:**
  - a. Future amount*
  - b. Present value*
  - c. Interest rate*
  - d. All of the given options*
- 8. **Which one of the present value factor is larger?**
  - a. PV of 1 factor for 10%*
  - b. PV of 1 factor for 12%*
  - c. Both have the same effect*
  - d. It cannot be determined*
- 9. **If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?**
  - a. 5.27 years*
  - b. 6.27 years*
  - c. 7.2 7 years*
  - d. 7.57 years*
- 10. **The future value of first Rs. 100 in 2 years at 8% discount is:**
  - a. Rs. 116.64*
  - b. Rs. 111.64*
  - c. Rs. 164.64*
  - d. Rs. 164.61*

Total marks: 10

### 1. **Investing activities include:**

- a. Purchase of property, plant and equipment*
- b. Cash received from the issuance of stock or equity in the business.*
- c. Purchases of stock or other securities (other than cash equivalents)*

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*d. Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

**4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.**

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

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5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. Actual cash income*
  - b. Un earned income*
  - c. Coming year income*
  - d. Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. Has performed in the past*
  - b. Might perform in the future*
  - c. Both a & b*
  - d. None of the given options*
7. *The current ratio is also known as:*
- a. Working capital ratio*
  - b. Leverage ratio*
  - c. Turnover ratio*
  - d. None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. Gearing*
  - b. Acid test ratio*
  - c. Working capital management*
  - d. All of the given options*

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9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. Ann is the principal and Mary is the agent.
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

\$ 50,000	x 15%	= \$ 7,500
(\$ 75,000 - 50,000)	x 25%	= 6,250
(\$ 100,000 - 75,000)	x 34%	= 8,500
(\$ 200,000 - 100,000)	x 39%	= 39,000
		\$ 61,250

Total tax is \$61,250.

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

- a. 39%
- b. 34%

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- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

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

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

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d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

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

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. **At least one**

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

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

- a. **comparison**
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

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1. \_\_\_\_\_ is considered as bottom line in Income Statement?
  - M. Total Assets
  - N. Total Liabilities
  - O. Net Profit**
  - P. Gross Profit
2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?
  - M. Income Statement
  - N. Balance Sheet**
  - O. Cash Flow Statement
  - P. Owner's Equity Statement
3. \_\_\_\_\_ involves the sale of used securities from one investor to another?
  - M. Primary Market
  - N. Secondary Market**
  - O. Tertiary Market
  - P. None of the given options
4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?
  - M. Liquidity**
  - N. Financial Leverage
  - O. Profitability
  - P. Market Value
5. The process of planning and managing a firm's long-term investments is called:
  - M. Planning Process
  - N. Capital Structure
  - O. Capital Budgeting**
  - P. Managing Process
6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:
  - M. 6.37 %**

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- N. 8.37 %  
O. 15.7 %  
P. 12.5 %
7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:  
M. 8 times  
N. 9 times  
O. 10 times  
P. 11 times
8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :  
O. Total Assets  
P. Total Liabilities  
Q. Total Capital  
R. Net Profit
9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:  
L. Sole Proprietorship  
M. Partnership  
N. Corporation  
O. None of the given options
10. Which one of these is considered as a non-cash item?  
L. Inventory  
M. Accounts Payable  
N. Accounts Receivable  
O. Depreciation

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

1. The difference between the return on a risky investment and that on a risk-free investment.

- A. Risk Return
  - B. Risk Premium**
  - C. Risk Factor
  - D. None of the above
2. **A group of assets such as stocks and bonds held by an investor.**
- A. Portfolio**
  - B. Capital Structure
  - C. Budget
  - D. None of the above
3. **If the variance or standard deviation is larger then the spread in returns will be:**
- A. Less
  - B. More**
  - C. Same
  - D. None of the Above
4. **The following risk is entirely wiped out by Diversification.**
- A. Systematic Risk
  - B. Unsystematic Risk**
  - C. Portfolio Risk
  - D. Total Risk
5. **The objective for using the concept of Diversification is to :**
- A. Minimize the Risk
  - B. Maximize the return
  - C. A & B**
  - D. None of the Above
6. **While studying the relationship in risk and return, It is commonly known that:**
- A. Higher the risk, lower the return
  - B. Lower the risk, higher the return
  - C. Higher the risk, higher the return**

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D. None of the above

**7. This type of risk affects almost all types of assets.**

A. Systematic Risk

B. Unsystematic Risk

C. Total Risk

D. Portfolio Risk

**MCQ # 08 - 10 are based on the following data:**

**Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).**

**8. According to the given data, the Capital Gain will be:**

A. 10,500

B. 7,500

C. 10,000

D. 7,000

**9. According to the given data, the Dividend yield will be:**

A. 8.50 %

B. 6.25%

C. 8.00%

D. 6.67%

**10. According to the given data, Total Percentage Returns will be:**

A. 20%

B. 28%

C. 32%

D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

A. Secondary market

B. Primary market

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- C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm**
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.**
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall**
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998**
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

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7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million**
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times**
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%**
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000**
  - C. Rs.72, 000
  - D. Rs.74, 000
1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64**
  - c. Rs.68
  - d. Rs.74

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

- a. **Rs.149.8**
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. **37%**
- d. 47%

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

- a. 150 votes
- b. **210 votes**
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. **Secondary market**
- c. Financial market
- d. Capital market

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

- a. **Rs.2, 576, 000**
- b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years**
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50**

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

- a. Opportunity cost
- b. Sunk cost**
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000**

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Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- a. -1
  - b. 0
  - c. 1
  - d. All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- a. **Book value**
  - b. Intrinsic value
  - c. Cost
  - d. Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- a. Erosion
  - b. Piracy
  - c. Cannibalism
  - d. **All of the given options**

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

- a) **Operating Cycle**
- b) Cash Cycle
- c) Receivable period
- d) Inventory period

2. **Which of the following does not affect cash cycle of a company?**

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

3. **Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- a) 100,000
- b) **97,000**
- c) 103,000
- d) 50,000

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4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- 3.347 approximately
  - 5.347 approximately
  - 2.347 approximately**
  - 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- 234 days
  - 223 days**
  - 245 days
  - 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- Bank loan
  - Commercial papers
  - Trade credit**
  - None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- Short-term assets financed with long-term liabilities.
  - Permanent working capital financed with long-term liabilities.**
  - Short-term assets financed with equity.
  - All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- Cash discount**
  - Quantity discount
  - Float discount
  - All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- The firm's disbursement float is less than its collection float.**
  - The firm's collection float is equal to zero.
  - The firm's collection float is less than its disbursement float.
  - None of the given options.
10. Financing a long-lived asset with short-term financing would be

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 % (excluding taxes). The current borrowing rate in the market is 9.25%. If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%. This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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- d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.
- E. Sunk cost
  - F. Opportunity cost**
  - G. Financing cost
  - H. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- E. 13.07 %
  - F. 15.67 %
  - G. 16.00 %
  - H. 18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. Portfolio**

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- F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. 62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. 2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model

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- I. Dividend Growth Model
  - F. Dividend Policy Model
  - G. All of the given options
10. Which of the following is not a quality of IRR ?
- E. Most widely used
  - J. Ideal to rank the mutually exclusive investments
  - F. Easily communicated and understood
  - G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.
- I. Ordinary Annuity
  - J. Perpetuity
  - K. Dividend
  - L. Interest
2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?
- I. 15.00 %
  - J. 15.34 %
  - K. 15.87 %
  - L. 16.42 %
3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.
- I. loan; receiver
  - J. dividend; issuer
  - K. dividend, receiver
  - L. loan; issuer
4. When the interest rates fall, the bond is worth \_\_\_\_\_.
- I. More
  - J. Less
  - K. Same

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- L. All of the given options.
- 5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**
- I. 30 %
  - J. 50 %
  - K. 70 %**
  - L. 90 %
- 6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**
- I. Increase Profit Margin
  - J. Increase Total Assets Turnover
  - K. Sell new shares
  - L. All of the given options.**
- 7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**
- I. Present Value**
  - J. Future Value
  - K. Capital Gain
  - L. Net Profit
- 8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**
- K. Rs. 319.45
  - L. Rs. 390.75
  - M. Rs. 419.45**
  - N. Rs. 463.75
- 9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**
- H. Time to maturity
  - I. Coupon rate
  - J. A and B**
  - K. None of the given options
- 10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**
- H. 8 %**
  - I. 10 %

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J. 12 %

K. 14 %

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

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

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

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

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

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

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

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

**15% required rate of return?**

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

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

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

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

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

- A. Rs. 30000
- B. Rs. 40,500**
- C. Rs. 50,000
- D. Rs. 60,000

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

( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows; ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

7. Following are the two cases:

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

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

suggested that the project is feasible.

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

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

suggested that the project is not feasible.

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

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II
- D. Opportunity cost in both Case I and Case II

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

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

be the total percentage return?

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %

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

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

- A. 0.30
- B. 0.40
- C. 0.60
- D. 0.75

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

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

- A. Relevant Cash Flows

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- B. Incremental Cash Flows**
- C. Negative Cash Flows**
- D. All of the given option**

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

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

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

**A. Convertible Bonds**

B. Income Bonds

C. Put Bonds

D. None of the given options

8. Interest rates and bond prices :

A. Move in the same direction

**B. Move in the opposite direction**

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

D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

A. Less

B. Zero

**C. More**

D. None of the given options

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

A. 6.639%

**B. 8.251%**

C. 10.00%

D. 11.43%

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

**Select correct option:**

Sunk

Opportunity

**Highlight the correct option:**

1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

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- a. **Time interest earned**
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
  
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
  - a. Return on short as well as long term investments
  - b. Return on equity and return on debt
  - c. **Return on equity and profit margin**
  - d. All of the given options
  
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
  - a. Increase
  - b. **Decrease**
  - c. Remain unchanged
  - d. None of the given option
  
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
  - a. 0.38 times
  - b. 0.58 times
  - c. **0.78 times**
  - d. 0.98 times
  
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions
  - b. Rs.250 millions
  - c. **Rs.350 millions**
  - d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- a. 12.29%
  - b. **14.29%**
  - c. 16.29%
  - d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- a. **25 %**

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- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**

- a. **Operating efficiency**
- b. **Asset usage efficiency**
- c. **Financial leverage**
- d. **All of the given options**

2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**

- a. **Return on assets ratio**
- b. **Retention ratio**
- c. **Leverage ratio**
- d. **Profit margin**

3. **Which of the following does not change Current ratio of a business:**

- a. **Efficient usage of current assets**
- b. **Change in the nature of the firm**
- c. **Change in Accounting method of the firm**
- d. **Change in the management of the firm**

4. **Present value factor is:**

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

5. **Depreciation expense is:**

- a. **Operating expense**
- b. **Investing expense**

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- c. Financing expense*
  - d. All of the given options*
- 6. **Internal growth rate tell how rapidly:**
  - a. The firm grows*
  - b. Sales of the firm grows*
  - c. Profit of the firm grows*
  - d. None of the given options*
- 7. **You can determine the number of periods (n) in a present value calculation, if you know:**
  - a. Future amount*
  - b. Present value*
  - c. Interest rate*
  - d. All of the given options*
- 8. **Which one of the present value factor is larger?**
  - a. PV of 1 factor for 10%*
  - b. PV of 1 factor for 12%*
  - c. Both have the same effect*
  - d. It cannot be determined*
- 9. **If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?**
  - a. 5.27 years*
  - b. 6.27 years*
  - c. 7.2 7 years*
  - d. 7.57 years*
- 10. **The future value of first Rs. 100 in 2 years at 8% discount is:**
  - a. Rs. 116.64*
  - b. Rs. 111.64*
  - c. Rs. 164.64*
  - d. Rs. 164.61*

Total marks: 10

### 1. **Investing activities include:**

- a. Purchase of property, plant and equipment*
- b. Cash received from the issuance of stock or equity in the business.*
- c. Purchases of stock or other securities (other than cash equivalents)*

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*d. Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

**4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.**

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

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5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. Actual cash income*
  - b. Un earned income*
  - c. Coming year income*
  - d. Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. Has performed in the past*
  - b. Might perform in the future*
  - c. Both a & b*
  - d. None of the given options*
7. *The current ratio is also known as:*
- a. Working capital ratio*
  - b. Leverage ratio*
  - c. Turnover ratio*
  - d. None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. Gearing*
  - b. Acid test ratio*
  - c. Working capital management*
  - d. All of the given options*

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9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. Ann is the principal and Mary is the agent.
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

\$ 50,000	x 15%	= \$ 7,500
(\$ 75,000 - 50,000)	x 25%	= 6,250
(\$ 100,000 - 75,000)	x 34%	= 8,500
(\$ 200,000 - 100,000)	x 39%	= 39,000
		\$ 61,250

Total tax is \$61,250.

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

- a. 39%
- b. 34%

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- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

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

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

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d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

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

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. At least one

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

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

- a. comparison
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

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1. \_\_\_\_\_ is considered as bottom line in Income Statement?
  - M. Total Assets
  - N. Total Liabilities
  - O. Net Profit**
  - P. Gross Profit
  
2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?
  - M. Income Statement
  - N. Balance Sheet**
  - O. Cash Flow Statement
  - P. Owner's Equity Statement
  
3. \_\_\_\_\_ involves the sale of used securities from one investor to another?
  - M. Primary Market
  - N. Secondary Market**
  - O. Tertiary Market
  - P. None of the given options
  
4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?
  - M. Liquidity**
  - N. Financial Leverage
  - O. Profitability
  - P. Market Value
  
5. The process of planning and managing a firm's long-term investments is called:
  - M. Planning Process
  - N. Capital Structure
  - O. Capital Budgeting**
  - P. Managing Process
  
6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:
  - M. 6.37 %**

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N. 8.37 %

O. 15.7 %

P. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

M. 8 times

N. 9 times

O. 10 times

P. 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

O. Total Assets

P. Total Liabilities

Q. Total Capital

R. Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

L. Sole Proprietorship

M. Partnership

N. Corporation

O. None of the given options

10. Which one of these is considered as a non-cash item?

L. Inventory

M. Accounts Payable

N. Accounts Receivable

O. Depreciation

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

a account receivable

b operation cycle

c inventory period

d none of above

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

a open bank account

b commercial draft

c promisory note

d banker acceptance

3. Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that:

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

**Investment A is more volatile than Investment B**

Investment B is more volatile than Investment A

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

a 5%

b 5.25 %

c 6%

d 8%

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

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

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

a balance sheet

b income statement

c cash flow

d none of above

8. Which of the following character is not a systematic risk?

Market risk

Interest risk

Inflation risk

Strike call in a company

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

a 100

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

Select correct option:

Accepted; rejected  
Rejected; rejected

Choose the Most Appropriate Answer among the given choices. Accepted; accepted  
Rejected; accepted

11. Which of the

1. The difference between the return on a risky investment and that on a risk-free investment. following is the overall return

the firm must earn on its

A. Risk Return existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal

B. Risk Premium Rate of Return)

WACC (Weighted Average

C. Risk Factor Cost of Capital) 146

AAR (Average Accounting

Return)

12. Which of the following is

D. None of the above the return that firm's creditors demand on new borrowings ?

Select correct option:

Cost of debt pg 143

Cost of preferred stock

2. A group of assets such as stocks and bonds held by an investor. Cost of common equity

Cost of retained earnings

A. Portfolio

13. In which type of projects,

B. Capital Structure the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

C. Budget Independent

Correlated

D. None of the above

14. Mr. Naveed has

3. If the variance or standard deviation is larger then the spread in returns will be: bought 100 shares of a at Rs. 23 per share. Over the

corporation one year ago

last year, he received a

total percentage return ?

A. Less dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his

10.63%

B. More 20.20%

35.12%

C. Same 41.30%

15. Which of the following is

D. None of the Above known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

Portfolio

4. The following risk is entirely wiped out by Diversification. Capital Structure

None of the given options

A. Systematic Risk

16. Suppose the initial

B. Unsystematic Risk investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

3.1 Years

C. Portfolio Risk 3.7 Years

4.1 Years

D. Total Risk

17. find the cash cycle

5. The objective for using the concept of Diversification is to : inventory period is 38 days account payabel period is 50

days and average accoun

receivable period is 30 days

a.68

A. Minimize the Risk

b 18

B. Maximize the return

c 80

C. A & B

d 118

D. None of the Above

6. While studying the relationship in risk and return, It is commonly known that:

A. Higher the risk, lower the return

B. Lower the risk, higher the return

C. Higher the risk, higher the return

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D. None of the above

7. This type of risk affects almost all types of assets.

- A. Systematic Risk
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. 7,500
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. 8.00%
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. 28%
- C. 32%
- D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. Primary market

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- C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

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7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000
1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64
  - c. Rs.68
  - d. Rs.74

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2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%.The price per share in this case would be \_\_\_\_\_.
- a. Rs.149.8
  - b. Rs.184.9
  - c. Rs.198.4
  - d. Rs.229.9
3. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?
- a. 17%
  - b. 27%
  - c. 37%
  - d. 47%
4. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast
- a. 150 votes
  - b. 210 votes
  - c. 240 votes
  - d. 300 votes
5. \_\_\_\_\_ is the market in which already issued securities are traded among investors.
- a. Primary market
  - b. Secondary market
  - c. Financial market
  - d. Capital market
6. Suppose Mehran Corporation is dealing in the Automobile industry. Based on projected costs and sales, it expects that the cash flows over the 3-year life of the project will be Rs.5, 000,000 in first year, Rs.7, 000,000 in the next year and Rs.8, 000,000 in the last year. This project would cost about Rs. 10,000,000.The net present value of the project would be \_\_\_\_\_, if discount rate is assumed to be 25%.
- a. Rs.2, 576, 000
  - b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

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Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- 1
  - 0
  - 1
  - All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- Book value**
  - Intrinsic value
  - Cost
  - Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- Erosion
  - Piracy
  - Cannibalism
  - All of the given options**

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

- Operating Cycle**
- Cash Cycle
- Receivable period
- Inventory period

**2. Which of the following does not affect cash cycle of a company?**

- Inventory period
- Accounts receivable period
- Accounts payable turnover
- None of the given option**

**3. Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- 100,000
- 97,000**
- 103,000
- 50,000

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4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- 3.347 approximately
  - 5.347 approximately
  - 2.347 approximately**
  - 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- 234 days
  - 223 days**
  - 245 days
  - 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- Bank loan
  - Commercial papers
  - Trade credit**
  - None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- Short-term assets financed with long-term liabilities.
  - Permanent working capital financed with long-term liabilities.**
  - Short-term assets financed with equity.
  - All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- Cash discount**
  - Quantity discount
  - Float discount
  - All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- The firm's disbursement float is less than its collection float.**
  - The firm's collection float is equal to zero.
  - The firm's collection float is less than its disbursement float.
  - None of the given options.
10. Financing a long-lived asset with short-term financing would be

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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- d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.
- E. Sunk cost
  - F. Opportunity cost**
  - G. Financing cost
  - H. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- E. 13.07 %
  - F. 15.67 %
  - G. 16.00 %
  - H. 18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. Portfolio**

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- F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. 62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. 2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model

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### I. Dividend Growth Model

F. Dividend Policy Model

G. All of the given options

### 10. Which of the following is not a quality of IRR ?

E. Most widely used

J. Ideal to rank the mutually exclusive investments

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

### 1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

I. Ordinary Annuity

J. Perpetuity

K. Dividend

L. Interest

### 2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?

I. 15.00 %

J. 15.34 %

K. 15.87 %

L. 16.42 %

### 3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

L. loan; issuer

### 4. When the interest rates fall, the bond is worth \_\_\_\_\_.

I. More

J. Less

K. Same

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- L. All of the given options.
- 5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**
- I. 30 %
  - J. 50 %
  - K. 70 %**
  - L. 90 %
- 6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**
- I. Increase Profit Margin
  - J. Increase Total Assets Turnover
  - K. Sell new shares
  - L. All of the given options.**
- 7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**
- I. Present Value**
  - J. Future Value
  - K. Capital Gain
  - L. Net Profit
- 8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**
- K. Rs. 319.45
  - L. Rs. 390.75
  - M. Rs. 419.45**
  - N. Rs. 463.75
- 9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**
- H. Time to maturity
  - I. Coupon rate
  - J. A and B**
  - K. None of the given options
- 10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**
- H. 8 %**
  - I. 10 %

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J. 12 %

K. 14 %

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

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

A. The expected capital gains yield from a common stock

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

C. The dividend yield from a preferred stock

D. The interest payment from a bond

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

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

A. 100 Votes

B. 200 Votes

**C. 300 Votes**

D. 400 Votes

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

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

**15% required rate of return?**

A. Rs. 30

**B. Rs. 40**

C. Rs. 50

D. Rs. 60

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

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

B. These stocks have dividend priority over common stocks

C. These stocks have stated liquidating value

D. These bonds hold credit ratings much like bonds

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

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

A. Rs. 30000

**B. Rs. 40,500**

C. Rs. 50,000

**D. Rs. 60,000**

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

**( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;  
( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

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

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

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

**suggested that the project is feasible.**

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

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

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

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

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II
- D. Opportunity cost in both Case I and Case II

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

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

**What will**

**be the total percentage return?**

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %

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

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

- A. 0.30
- B. 0.40
- C. 0.60
- D. 0.75

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

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

- A. Relevant Cash Flows

- B. Incremental Cash Flows**
- C. Negative Cash Flows
- D. All of the given option

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

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

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

- A. Convertible Bonds**
- B. Income Bonds
- C. Put Bonds
- D. None of the given options

8. Interest rates and bond prices :

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

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

- A. 6.639%
- B. 8.251%
- C. 10.00%
- D. 11.43%**

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

- Sunk
- Opportunity

Highlight the correct option:

1) The alternative name used for Interest Coverage Ratio is

\_\_\_\_\_.



## ACC501 All Solved Mid Term MCQs

- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions
  - b. Rs.250 millions
  - c. **Rs.350 millions**
  - d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is  $\frac{3}{5}$ . What would be the internal growth rate of the Sian Corporation?
- a. 12.29%
  - b. **14.29%**
  - c. 16.29%
  - d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of  $\frac{4}{6}$ ?
- a. **25 %**

## ACC501 All Solved Mid Term MCQs

- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**
  - a. **Operating efficiency**
  - b. **Asset usage efficiency**
  - c. **Financial leverage**
  - d. **All of the given options**
2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**
  - a. **Return on assets ratio**
  - b. **Retention ratio**
  - c. **Leverage ratio**
  - d. **Profit margin**
3. **Which of the following does not change Current ratio of a business:**
  - a. **Efficient usage of current assets**
  - b. **Change in the nature of the firm**
  - c. **Change in Accounting method of the firm**
  - d. **Change in the management of the firm**
4. **Present value factor is:**
  - a.  **$(1+r)^t$**
  - b.  **$(1-r)^t$**
  - c.  **$1/(1+r)^t$**
  - d.  **$1/(1+r)^{1/t}$**
5. **Depreciation expense is:**
  - a. **Operating expense**
  - b. **Investing expense**

ACC501 All Solved Mid Term MCQs

- c. *Financing expense*
  - d. *All of the given options*
6. *Internal growth rate tell how rapidly:*
- a. *The firm grows*
  - b. *Sales of the firm grows*
  - c. *Profit of the firm grows*
  - d. *None of the given options*
7. *You can determine the number of periods (n) in a present value calculation, if you know:*
- a. *Future amount*
  - b. *Present value*
  - c. *Interest rate*
  - d. *All of the given options*
8. *Which one of the present value factor is larger?*
- a. *PV of 1 factor for 10%*
  - b. *PV of 1 factor for 12%*
  - c. *Both have the same effect*
  - d. *It cannot be determined*
9. *If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?*
- a. *5.27 years*
  - b. *6.27 years*
  - c. *7.2 7 years*
  - d. *7.57 years*
10. *The future value of first Rs. 100 in 2 years at 8% discount is:*
- a. *Rs. 116.64*
  - b. *Rs. 111.64*
  - c. *Rs. 164.64*
  - d. *Rs. 164.61*

Total marks: 10

1. *Investing activities include:*

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*

ACC501 All Solved Mid Term MCQs

*d. Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

**4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.**

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

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5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay its financial obligations:

- a. *Management ratios*
- b. *Working capital ratios*
- c. *Net profit margin ratios*
- d. *Solvency Ratios*

10. Balance sheet items expressed as percentage of:

- a. *Net sales*
- b. *Total revenue*
- c. *Total assets*
- d. *Total liabilities*

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

- a. **Ann is the principal and Mary is the agent** .
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

$$\begin{aligned} \$ 50,000 & \times 15\% = \$ 7,500 \\ (\$ 75,000 - 50,000) & \times 25\% = 6,250 \\ (\$ 100,000 - 75,000) & \times 34\% = 8,500 \\ (\$ 200,000 - 100,000) & \times 39\% = 39,000 \\ & \$ 61,250 \end{aligned}$$

Total tax is \$61,250.

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

- a. **39%**
- b. 34%

## ACC501 All Solved Mid Term MCQs

- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

7. Which of the given options is an advantage of a corporation that is advantage as a limited partner in a partnership?

*not an*

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

## ACC501 All Solved Mid Term MCQs

d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

**2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress.**

**For this purpose you will study which category of ratios of the company?**

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. **At least one**

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

## ACC501 All Solved Mid Term MCQs

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

- a. comparison
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

ACC501 All Solved Mid Term MCQs

1. \_\_\_\_\_ is considered as bottom line in Income Statement?
  - M. Total Assets
  - N. Total Liabilities
  - O. Net Profit**
  - P. Gross Profit
  
2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?
  - M. Income Statement
  - N. Balance Sheet**
  - O. Cash Flow Statement
  - P. Owner's Equity Statement
  
3. \_\_\_\_\_ involves the sale of used securities from one investor to another?
  - M. Primary Market
  - N. Secondary Market**
  - O. Tertiary Market
  - P. None of the given options
  
4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?
  - M. Liquidity**
  - N. Financial Leverage
  - O. Profitability
  - P. Market Value
  
5. The process of planning and managing a firm's long-term investments is called:
  - M. Planning Process
  - N. Capital Structure
  - O. Capital Budgeting**
  - P. Managing Process
  
6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:
  - M. 6.37 %**

**ACC 501 mcqs**

**ACC501 All Solved Mid Term MCQs**

1. Which of the following is the process of planning and managing a firm's long-term investments?  
Select correct option:  
Capital Structuring N. 8.37 % Capital Rationing  
**Capital Budgeting** O. 15.7 % Working Capital Management
2. Which of the following refers to the cash flows that result from the firm's day-to-day ac selling?  
P. 12.5 %  
Select correct option:  
Flows  
Flows  
Flows
7. S&T Company have 35 thousands shares outstanding and the stock sold for 99 per share at the end of year. Income Statement reported a net income of 385,000. The Price Earning Ratio for S&T Company will be: **All of the give**  
M. 8 times  
N. 9 times  
O. 10 times  
P. 11 times
3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:  
Select correct option:  
Float **Collar**  
Limit Surplus
4. Which of the acronym for  
Select correct  
General Accounting  
**Generally Accepted**  
General Accepted
8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :  
O. Total Assets Generally Applied Accountability Principles  
P. Total Liabilities Assessment Principles  
Q. Total Capital **Accounting Principles**  
R. Net Profit Assessment Principles
5. Which of the following strategy belongs to restrictive policy regarding size of investi  
Select correct  
9. A business, created as a distinct legal entity owned by one or more individu  
or entities, is known as: assets to sales  
L. Sole Proprietorship **ratio of current assets to sales**  
M. Partnership debt and less long-term debt  
N. Corporation known as:  
O. None of the given options **Acid-test Ratio**
6. Quick Ratio is also  
Select correct option:  
Current Ratio  
Cash Ratio  
None of the given opt
10. Which one of these is considered as a non-cash item?  
L. Inventory planning to share their capital to run a business. They are going to em  
Select correct option:  
M. Accounts Payable Sole-proprietorship  
N. Accounts Receivable Corporation  
options
7. Mr. Y and Mr. Z are type of business?  
**Partnership**  
None of the given
8. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and be \_\_ and \_\_ respectively.  
Select correct option:  
20%; 80%  
37%; 63%

tion  
he given options

ue of money is an important finance concept because:  
rrect option:

risk into account  
me into account  
omponent interest into account  
given options

ferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a consta  
what is the rate of return on this stock?  
rrect option:

ent  
ent  
ent  
ent

the following ratios are particularly interesting to short-term creditors?  
rrect option:

**Ratios**  
m Solvency Ratios  
lity Ratios  
alue Ratios

the following equation is known as Cash Flow (CF) identity?  
rrect option:

Assets = CF to Creditors – CF to Stockholder  
Assets = CF to Stockholders – CF to Creditors  
ckholders = CF to Creditors + CF from Assets  
**Assets = CF to Creditors + CF to Stockholder**

ld be indifferent between taking and not taking the investment when:  
rrect option:

reater than Zero  
qual to Zero  
ss than Zero  
given options

the following is (are) a non-cash item(s) ?  
rrect option:

tion  
given options

the following is NOT a shortcoming of Payback Rule?  
rrect option:

ue of money is ignored

the following type of risk can be eliminated by diversification?  
Correct option:

**Specific Risk**  
Business Finance (ACC501) Solution quiz 01 Risk  
the given options Fall Semester 2006

the following measure reveals how much profit a company generates with the money shareholders have invested?  
Correct option:  
Highlight the correct option: **Profit Margin**

1) The alternative name used for Interest Coverage Ratio is **Equity Ratio**

the following is(are) the basic area(s) of Finance?  
Correct option:  
a. **Time interest earned** Financial institutions  
b. Cash coverage ratio finance  
c. Profit margin ratio **All of the given options**  
d. None of the given option

the following is the return that firm's creditors demand on new borrowings?  
Correct option:  
2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?  
earnings **Cost of debt**  
**stock equity**

Specific Risk is also known as:  
Correct option:  
a. Return on short as well as long term investments  
b. Return on equity and return on debt  
c. **Return on equity and profit margin** **Diversifiable Risk**  
d. All of the given options **Residual Risk**

3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?  
Aamir with shares. Both four directors but M Aamir to be director. How much votes  
able to cast as per cumulative voting procedure?  
Correct option:  
a. Increase  
b. **Decrease** 70  
c. Remain unchanged 200  
d. None of the given option

4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?

a. 0.38 times

Business Finance (ACC501) Solution quiz 01  
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- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. Rs.4.5 million
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. 12.414 %
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
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  - c. Rs.350 millions
  - d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?

- a. 25 %
- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. Rs.271.415 millions
- d. Rs.281.415 millions

(Total marks: 10)

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

Business Finance (ACC501) Solution quiz 01

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- B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

Business Finance (ACC501) Solution quiz 01  
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8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000

Business Finance (ACC501) Solution quiz 01  
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- C. Risk Factor
- D. None of the above

2. A group of assets such as stocks and bonds held by an investor.

- A. Portfolio
- B. Capital Structure
- C. Budget
- D. None of the above

3. If the variance or standard deviation is larger then the spread in returns will be:

- A. Less
- B. More
- C. Same
- D. None of the Above

4. The following risk is entirely wiped out by Diversification.

- A. Systematic Risk
- B. Unsystematic Risk
- C. Portfolio Risk
- D. Total Risk

5. The objective for using the concept of Diversification is to :

- A. Minimize the Risk
- B. Maximize the return
- C. A & B
- D. None of the Above

6. While studying the relationship in risk and return, It is commonly known that:

- A. Higher the risk, lower the return
- B. Lower the risk, higher the return
- C. Higher the risk, higher the return

Business Finance (ACC501) Solution quiz 01  
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- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. 7,500
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. 8.00%
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. 28%
- C. 32%
- D. 35%

Total marks: 10

Choose and highlight the right option:

1. ROE in DuPont identity is affected by:

a. Operating efficiency

- b. *Retention ratio*
- c. *Leverage ratio*
- d. *Profit margin*

3. *Which of the following does not change Current ratio of a business:*

- a. *Efficient usage of current assets*
- b. *Change in the nature of the firm*
- c. *Change in Accounting method of the firm*
- d. *Change in the management of the firm*

4. *Present value factor is:*

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

5. *Depreciation expense is:*

- a. *Operating expense*
- b. *Investing expense*
- c. *Financing expense*
- d. *All of the given options*

6. *Internal growth rate tell how rapidly:*

- a. *The firm grows*
- b. *Sales of the firm grows*
- c. *Profit of the firm grows*
- d. *None of the given options*

7. *You can determine the number of periods (n) in a present value calculation, if you know:*

- a. *Future amount*
- b. *Present value*
- c. *Interest rate*
- d. *All of the given options*

8. *Which one of the present value factor is larger?*

- a. *PV of 1 factor for 10%*
- b. *PV of 1 factor for 12%*
- c. *Both have the same effect*

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

10. The future value of first Rs. 100 in 2 years at 8% discount is:

- a. Rs. 116.64
- b. Rs. 111.64
- c. Rs. 164.64
- d. Rs. 164.61

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

- a. Rs.60
- b. Rs.64
- c. Rs.68
- d. Rs.74

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

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000
- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

8. Suppose Z Corporation has the present value of its future cash flows is Rs 450, 000

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

Total marks: 10

**1. Investing activities include:**

- a. **Purchase of property, plant and equipment**
- b. **Cash received from the issuance of stock or equity in the business.**
- c. **Purchases of stock or other securities (other than cash equivalents)**
- d. **Both a & c**

**2. Changes in cash from financing are "cash in" when:**

- a. **Capital is raised**

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

- a. *Cash from operations activities*
- b. *Cash from financing activities*
- c. *Cash from investing activities*
- d. *None of the given options*

4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.

- a. *marketable securities*
- b. *Cash equivalents*
- c. *Treasury bills*
- d. *All of the given options*

5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay its financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

**QUIZ # 01**

**SPRING SEMESTER 2007**

**ACC501 – BUSINESS FINANCE**

**Total  
Marks  
10**

## **SOLUTION**

*Most Appropriate Answer among the given choices has been chosen.*

1. \_\_\_\_\_ is considered as bottom line in Income Statement?

- E. Total Assets
- F. Total Liabilities
- G. Net Profit

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

H. Owner's Equity Statement

3. \_\_\_\_\_ involves the sale of used securities from one investor to another?

E. Primary Market

F. **Secondary Market**

G. Tertiary Market

H. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

E. **Liquidity**

F. Financial Leverage

G. Profitability

H. Market Value

5. The process of planning and managing a firm's long-term investments is called:

E. Planning Process

F. Capital Structure

G. **Capital Budgeting**

H. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

E. 6.37 %

F. 8.37 %

G. **15.7 %**

H. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

E. 8 times

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

- F. Total Liabilities
- G. Total Capital
- H. Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

- E. Sole Proprietorship
- F. Partnership
- G. Corporation
- H. None of the given options

10. Which one of these is considered as a non-cash item?

- E. Inventory
- F. Accounts Payable
- G. Accounts Receivable
- H. Depreciation

**QUIZ # 02 (Solution)**  
**SPRING SEMESTER 2007**  
**ACC501 – BUSINESS FINANCE**

**Total  
Marks  
10**

**Instructions:**

- Due Date and Time to submit the Quiz is . . .

**Friday, Apr. 20, 2007 - - - Before 12'O Clock Midnight**

- Quiz includes **Lecture # 11 to Lecture # 18** of your course.

- You can choose the right option by Highlighting, **Making Bold** or **Changing Color** .

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

**2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?**

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

**3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

**4. When the interest rates fall, the bond is worth \_\_\_\_\_.**

**I. More**

J. Less

K. Same

L. All of the given options.

**5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**

I. 30 %

J. 50 %

**K. 70 %**

L. 90 %

**6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

**I. Present Value**

J. Future Value

K. Capital Gain

L. Net Profit

**8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**

I. Rs. 319.45

J. Rs. 390.75

**K. Rs. 419.45**

L. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

I. Time to maturity

J. Coupon rate

**K. A and B**

L. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

**I. 8 %**

J. 10 %

K. 12 %

L. 14 %

**QUIZ # 03 (SOLUTION)**

**SPRING SEMESTER 2007**

**ACC501 – BUSINESS FINANCE**

**Total  
Marks  
10**

**Instructions:**

Business Finance (ACC501) Solution quiz 01

Fall Semester 2006

• Quiz will not be acceptable in any way after the mentioned Date and Time.

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

M. Sunk cost

N. Opportunity cost

O. Financing cost

P. All of the given options

2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?

M. 13.07 %

N. 15.67 %

O. 16.00 %

P. 18.80 %

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.

M. Portfolio

N. Diversification

O. Stock Bundle

P. None of the given options

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

M. Net Present Value (NPV)

N. Profitability Index (PI)

O. Average Accounting Return (AAR)

P. Internal Rate of Return (IRR)

5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

M. 37.5 %

Business Finance (ACC501) Solution quiz 01  
Fall Semester 2006

N. Market Risk

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Date : 25-11-2010

O. Non-diversifiable Risk  
P. All of the given options

ACC 501 Quiz Conference lecture 1 to 18

7. Which of the following risk can be eliminated by diversification?

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

M. Systematic Risk

N. Unsystematic Risk  
Best mixture of financial investment

International aspects of corporate finance

O. A & B  
Associated risks and rewards

Pricing financial assets

P. None of the given options

2. Period costs include which of the following?

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs.

40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The

project will have a payback period of:

M. 2.6 Years

N. 3.1 Years

3. Product costs include which of the following?

O. 3.6 Years  
Select correct option:

P. 4.1 Years

Selling expenses

9. A model which makes an assumption about the future growth of dividends is known as

M. Dividend Price Model

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

Select correct option:

N. Dividend Policy Model

Profit Margin

O. All of the given options  
Total Assets Turnover

10. Which of the following is not a quality of IRR ?

None of the given options

M. Most widely used

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

R. Ideal to rank the mutually exclusive investments  
Select correct option:

N. Easily communicated and understood

Operating cash flow

Capital spending

O. Can be estimated even without knowing the discount rate

All of the given options  
Change in net working capital

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

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

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

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

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

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

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

**10. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**11. In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market  
Tertiary market  
None of the given options

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

Liquidity Ratios  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

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

**Income Statement**  
Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement

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

Operating activity  
Investing activity  
Financing activity  
None of the given options

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

Current Ratio  
**Acid-test Ratio**  
Cash Ratio

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

**Income Statement**  
Balance Sheet  
Cash Flow Statement  
Retained Earning Statement

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

Dividends

Retained Earnings  
Capital Gain  
None of the given options

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

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

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

Income Statement  
**Balance Sheet**  
Owner's Equity Statement  
Cash Flow Statement

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

Dividends  
**Retained Earnings**  
Capital Gain  
None of the given options

**21. Which one of the following is NOT a liquidity ratio?**  
Select correct option:

Current Ratio  
Quick Ratio  
**Cash Coverage Ratio**  
Cash Ratio

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

Profit Margin  
Return on Assets  
Return on Equity  
Total Assets Turnover

**23. Which of the following is an example of capital spending?**  
Select correct option:

**Purchase of Fixed Assets**  
Decrease in Net Working Capital  
Increase in Net Working Capital  
None of the given options

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

**Operating efficiency**  
Asset use efficiency  
Financial policy  
Dividend policy

**25. Who of the following make a broader use of accounting information?**  
Select correct option:

Accountants  
**Financial Analysts**  
Auditors  
Marketers

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

Liquidity Ratios  
Leverage Ratios  
Profitability Ratios  
**Market Value Ratios**

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

**Positive**

Negative  
zero  
None of the given options

**28. which of the following is not a form of business organization**  
Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**29. Which of the following ratios are intended to address the firm's financial leverage?**  
Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**30. The accounting definition of income is:**  
Select correct option:

Income = Current Assets – Current Liabilities  
Income = Fixed Assets – Current Assets  
Income = Revenues – Current Liabilities  
**Income = Revenues – Expenses**

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

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

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

Rs. 105,600  
Rs. 148,500  
**Rs. 165,000**  
Rs. 225,000

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

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

**Debt securities or bonds lec 17**

Common Stocks  
Preferred Stock  
All of the given options

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

Liquidity Ratios  
Leverage Ratios  
Profitability Ratios  
Market Value Ratios

35. In which type of market, used securities are traded?  
Select correct option:

Primary market  
**Secondary market**  
Tertiary market  
None of the given options

36. Who of the following make a broader use of accounting information?  
Select correct option:

Accountants  
**Financial Analysts lec 2**  
Auditors  
Marketers

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

Revenue

Expenses

**Depreciation**

All of the given options

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

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

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

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**40. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

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

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

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

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

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

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

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

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

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

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

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

Select correct option:

Sole-proprietorship

**General Partnership pg 6**

**Limited Partnerhsip**

**Corporation**

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

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

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

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due  
Perpetuity

49. Which of the following is an example of positive covenant?  
Select correct option:  
**Maintaining any collateral or security in good condition**  
Limiting the amount of dividend according to some formula  
Restricting pledging assets to other lenders  
Barring merger with another firm
50. Which of the following refers to the difference between the sale price and cost of **inventory**?  
Select correct option:  
Net loss  
**Net worth**  
Markup  
Markdown
51. Which of the following allows a company to repurchase part or all of the bond issue at a **stated price**?  
Select correct option:  
Repayment  
Seniority  
**Call provision**  
Protective covenants
52. \_\_\_\_\_ shows the sources from which cash has been generated and how it has **been spent during a period of time**?  
Select correct option:  
**Income Statement**  
Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement
53. Which of the following is a cash flow from financing activity?  
Select correct option:  
Cash outflow to the government for taxes  
**Cash outflow to shareholders as dividends**  
Cash outflow to lenders as interest  
Cash outflow to purchase bonds issued by another company
54. Which of the following form of business organization is least regulated?  
Select correct option:  
**Sole-proprietorship**  
General Partnership  
Limited Partnership  
Corporation

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

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

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

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

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

**issuing or selling:**

**Select correct option:**

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

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

**Select correct option:**

Inventory

Supplies

Machinery

**Depreciation**

59. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What

**would be the total worth of the firm's assets?**

**Select correct option:**

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

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

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

**entity owned by one or more individuals or entities?**

**Select correct option:**

Sole-proprietorship  
General Partnership  
Limited Partnership  
**Corporation**

**61. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**none of the above**

**62. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder  
CF from Assets = CF to Stockholders – CF to Creditors  
CF to Stockholders = CF to Creditors + CF from Assets  
**CF from Assets = CF to Creditors + CF to Stockholder**

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

Select correct option:

Surplus Asset  
Short-term Ratio  
**Working Capital**  
Current Ratio

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

Select correct option:

**Rs. 14,186**  
**Rs. 18,256**  
**Rs. 22,697**  
Rs. 28,253

**solution**

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

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

Select correct option:

**Income Statement**  
**Balance Sheet**  
Cash Flow Statement  
Retained Earning Statement

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

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

67. Which of the following statement about bond ratings is TRUE?

Select correct option:

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

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

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

**None of the given options**

68. Which of the following is the acronym for GAAP?

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

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

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

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

Select correct option:

12 %

25 %

**40 %**

60 %

#### **Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

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

Select correct option:

**Positive**

Negative

zero

None of the given options

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

**Dividends**

Retained Earnings

Capital Gain

None of the given options

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

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

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

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.

**Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

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

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

75. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

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

Select correct option:

8.42 years

**10.51 years**

15.75 years  
18.78 years  
 $6000(1+5\%)^{10.51}$ =around 10,000

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

**Maintaining firm's working capital at or above some specified minimum level**  
Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition  
Restricting selling or leasing assets

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

Select correct option:

Operating efficiency  
Asset use efficiency  
Financial policy  
**Dividend policy**

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

Select correct option:

Income Statement  
**Balance Sheet**  
Owner's Equity Statement  
Cash Flow Statement

Armaan: b

80. Product costs include which of the following?

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

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

Select correct option:

Rs. 500  
Rs. 752  
Rs. 1,052  
**Rs. 1,100**

4100-3000=1100

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

Select correct option:

**7.00 percent**

7.12 percent

7.19 percent

7.23 percent

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

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

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

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

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

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

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

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

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

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

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

**Ordinary annuity**

Annuity due

Perpetuity

None of the given options

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

Financial institutions

International finance

**Investments**

All of the given options

90. 7:03 AM Which of the following is NOT an external use of financial statements information?  
Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

- 91. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

92. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.  
What is the profit margin?  
Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

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

**93. Which of the following is the process of planning and managing a firm's long-term investments?**

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**95. Quick Ratio is also known as:**

**Select correct option:**

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

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

**Select correct option:**

Sole-proprietorship

**Partnership**

Corporation

None of the given options

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

**Select correct option:**

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

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

## ACC 501 mcqs

1. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

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

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a **discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

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

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

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

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

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

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

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

**All of the given options**

3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar**

Limit

Surplus

4. Which of the following is the acronym for GAAP?

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

5. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?  
Select correct option:
- To maintain a high ratio of current assets to sales  
**To maintain a low ratio of current assets to sales**  
 To less short-term debt and more long-term debt  
 To more short-term debt and less long-term debt
6. Quick Ratio is also known as:  
Select correct option:
- Current Ratio  
**Acid-test Ratio**  
 Cash Ratio  
 None of the given options
7. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?  
Select correct option:
- Sole-proprietorship  
**Partnership**  
 Corporation  
 None of the given options
8. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.  
Select correct option:
- 20%; 80%  
**37%; 63%**  
 63%; 37%  
 80%; 20%
9. Which of the following terms refers to the costs to store and finance the assets?  
Select correct option:
- Carrying costs  
**Shortage costs**  
 Storing costs  
 financing costs
10. Which one of the following statement is INCORRECT regarding MACRS depreciation?  
Select correct option:
- Every asset is assigned to a particular class which establishes asset's life for tax purposes.**
11. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.
- Annual depreciation remains constant every year even by using different rates.
- The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.
12. Which of the following statement is CORRECT regarding compound interest?  
Select correct option:
- It is the most basic form of calculating interest.  
 It earns profit not only on principal but also on interest.  
**It is calculated by multiplying principal by rate multiplied by time.**  
 It does not take into account the accumulated interest for calculation.
13. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?  
Select correct option:
- Sole-proprietorship**  
 Partnership  
 Corporation  
 None of the given options
14. Time value of money is an important finance concept because:  
Select correct option:
- It takes risk into account  
 It takes time into account  
 It takes compound interest into account  
**All of the given options**
15. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?  
Select correct option:
- 5.00 percent  
**7.00 percent**  
 8.45 percent  
 10.0 percent
16. Which of the following ratios are particularly interesting to short-term creditors?  
Select correct option:

**Liquidity Ratios**

**Long-term Solvency Ratios**

**Profitability Ratios**

**Market Value Ratios**

17. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

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

Select correct option:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

**All of the given options**

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

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

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

Select correct option:

Time value of money is ignored

It fails to consider risk differences

**Simple and easy to calculate**

None of the given options

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

Select correct option:

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

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

**Either because both options are of equal value**

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

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

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

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

24. Business risk depends on which of the following risk of the firm's assets ?

Select correct option:

**Systematic Risk**

Diversifiable Risk

Unsystematic Risk

None of the given options

25. Which of the following type of risk can be eliminated by diversification?

Select correct option:

**Systematic Risk**

Market Risk

Unsystematic Risk

None of the given options

26. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?

Select correct option:

Profit Margin

Return on Assets

**Return on Equity**

Debt-Equity Ratio

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

Select correct option:

International finance  
All of the given options

## ACC501 All Solved Mid Term MCQs

Financial institutions  
Investments

28. Which of the demand on new  
Select correct

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

following is the return that firm's creditors borrowings ?

1. The difference between the return on a risky investment and that on a risk-free investment.

option:  
Cost of debt

Cost of preferred

A. Risk Return stock

Cost of common

B. Risk Premium equity earnings

Cost of retained

C. Risk Factor known as:

29. Systematic Risk is also

Select correct option:

Diversifiable Risk

D. None of the above Market Risk

Residual Risk

2. A group of assets such as stocks and bonds held by an investor.

Asset-specific Risk

30. ABC Corporation has one of the four

able to cast as per

Select correct option:

70

200

A. Portfolio two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

B. Capital Structure

C. Budget 120

280

31.

D. None of the above

3. If the variance or standard deviation is larger then the spread in returns will be:

A. Less

B. More

C. Same

D. None of the Above

4. The following risk is entirely wiped out by Diversification.

A. Systematic Risk

B. Unsystematic Risk

C. Portfolio Risk

D. Total Risk

5. The objective for using the concept of Diversification is to :

A. Minimize the Risk

B. Maximize the return

C. A & B

D. None of the Above

6. While studying the relationship in risk and return, It is commonly known that:

A. Higher the risk, lower the return

B. Lower the risk, higher the return

C. Higher the risk, higher the return

D. None of the above

7. This type of risk affects almost all types of assets.

- A. Systematic Risk
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. 7,500
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. 8.00%
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. 28%
- C. 32%
- D. 35%

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1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. Primary market

## ACC501 All Solved Mid Term MCQs

- C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

## ACC501 All Solved Mid Term MCQs

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000

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1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64
  - c. Rs.68
  - d. Rs.74

## ACC501 All Solved Mid Term MCQs

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

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. 37%
- d. 47%

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

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000

## ACC501 All Solved Mid Term MCQs

- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

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10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

## ACC501 All Solved Mid Term MCQs

Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

## ACC501 All Solved Mid Term MCQs

8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- 1
  - 0
  - 1
  - All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- Book value**
  - Intrinsic value
  - Cost
  - Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- Erosion
  - Piracy
  - Cannibalism
  - All of the given options**

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

- Operating Cycle**
- Cash Cycle
- Receivable period
- Inventory period

**2. Which of the following does not affect cash cycle of a company?**

- Inventory period
- Accounts receivable period
- Accounts payable turnover
- None of the given option**

**3. Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- 100,000
- 97,000**
- 103,000
- 50,000

## ACC501 All Solved Mid Term MCQs

4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- 3.347 approximately
  - 5.347 approximately
  - 2.347 approximately**
  - 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- 234 days
  - 223 days**
  - 245 days
  - 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- Bank loan
  - Commercial papers
  - Trade credit**
  - None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- Short-term assets financed with long-term liabilities.
  - Permanent working capital financed with long-term liabilities.**
  - Short-term assets financed with equity.
  - All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- Cash discount**
  - Quantity discount
  - Float discount
  - All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- The firm's disbursement float is less than its collection float.**
  - The firm's collection float is equal to zero.
  - The firm's collection float is less than its disbursement float.
  - None of the given options.
10. Financing a long-lived asset with short-term financing would be

## ACC501 All Solved Mid Term MCQs

- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

## ACC501 All Solved Mid Term MCQs

5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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d) 19 days

9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.
- E. Sunk cost
  - F. Opportunity cost**
  - G. Financing cost
  - H. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- E. 13.07 %
  - F. 15.67 %
  - G. 16.00 %
  - H. 18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. Portfolio**

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- F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. 62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. 2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model

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### **I. Dividend Growth Model**

F. Dividend Policy Model

G. All of the given options

### **10. Which of the following is not a quality of IRR ?**

E. Most widely used

**J. Ideal to rank the mutually exclusive investments**

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

### **1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.**

I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

### **2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?**

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

### **3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

### **4. When the interest rates fall, the bond is worth \_\_\_\_\_.**

**I. More**

J. Less

K. Same

L. All of the given options.

**5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**

I. 30 %

J. 50 %

K. 70 %

L. 90 %

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**6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

L. All of the given options.

**7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**

I. Present Value

J. Future Value

K. Capital Gain

L. Net Profit

**8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**

K. Rs. 319.45

L. Rs. 390.75

M. Rs. 419.45

N. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

H. Time to maturity

I. Coupon rate

J. A and B

K. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

H. 8 %

I. 10 %

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J. 12 %

K. 14 %

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

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

A. The expected capital gains yield from a common stock

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

C. The dividend yield from a preferred stock

D. The interest payment from a bond

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

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

A. 100 Votes

B. 200 Votes

**C. 300 Votes**

D. 400 Votes

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

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

**15% required rate of return?**

A. Rs. 30

**B. Rs. 40**

C. Rs. 50

D. Rs. 60

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

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

B. These stocks have dividend priority over common stocks

C. These stocks have stated liquidating value

D. These bonds hold credit ratings much like bonds

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

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

A. Rs. 30000

**B. Rs. 40,500**

C. Rs. 50,000

**D. Rs. 60,000**

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

**( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;  
( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

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

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

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

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

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

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

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

**suggested that the project is feasible.**

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

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

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

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

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

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

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

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

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

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

**What will**

**be the total percentage return?**

**A. 22.85 %**

**B. 25.16 %**

**C. 30.52 %**

**D. 34.29 %**

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

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

**A. 0.30**

**B. 0.40**

**C. 0.60**

**D. 0.75**

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

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

**A. Relevant Cash Flows**

- B. Incremental Cash Flows**
- C. Negative Cash Flows
- D. All of the given option

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

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

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

- A. Convertible Bonds**
- B. Income Bonds
- C. Put Bonds
- D. None of the given options

8. Interest rates and bond prices :

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

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

- A. 6.639%
- B. 8.251%
- C. 10.00%
- D. 11.43%**

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

- Sunk
- Opportunity

Highlight the correct option:

1) The alternative name used for Interest Coverage Ratio is

\_\_\_\_\_.

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- a. **Time interest earned**  
b. Cash coverage ratio  
c. Profit margin ratio  
d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
- a. Return on short as well as long term investments  
b. Return on equity and return on debt  
c. **Return on equity and profit margin**  
d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase  
b. **Decrease**  
c. Remain unchanged  
d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times  
b. 0.58 times  
c. **0.78 times**  
d. 0.98 times
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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- a. Rs. 2.5 million  
b. Rs. 3 million  
c. Rs. 3.5 million  
d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.
- a. 9.414 %  
b. 10.414 %  
c. 11.412 %  
d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions  
b. Rs.250 millions  
c. **Rs.350 millions**  
d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is  $\frac{3}{5}$ . What would be the internal growth rate of the Sian Corporation?
- a. 12.29%  
b. **14.29%**  
c. 16.29%  
d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of  $\frac{4}{6}$ ?
- a. **25 %**

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- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**
  - a. **Operating efficiency**
  - b. **Asset usage efficiency**
  - c. **Financial leverage**
  - d. **All of the given options**
2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**
  - a. **Return on assets ratio**
  - b. **Retention ratio**
  - c. **Leverage ratio**
  - d. **Profit margin**
3. **Which of the following does not change Current ratio of a business:**
  - a. **Efficient usage of current assets**
  - b. **Change in the nature of the firm**
  - c. **Change in Accounting method of the firm**
  - d. **Change in the management of the firm**
4. **Present value factor is:**
  - a.  **$(1+r)^t$**
  - b.  **$(1-r)^t$**
  - c.  **$1/(1+r)^t$**
  - d.  **$1/(1+r)^{1/t}$**
5. **Depreciation expense is:**
  - a. **Operating expense**
  - b. **Investing expense**

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- c. Financing expense*
  - d. All of the given options*
  
- 6. Internal growth rate tell how rapidly:**
  - a. The firm grows*
  - b. Sales of the firm grows*
  - c. Profit of the firm grows*
  - d. None of the given options*
  
- 7. You can determine the number of periods (n) in a present value calculation, if you know:**
  - a. Future amount*
  - b. Present value*
  - c. Interest rate*
  - d. All of the given options*
  
- 8. Which one of the present value factor is larger?**
  - a. PV of 1 factor for 10%*
  - b. PV of 1 factor for 12%*
  - c. Both have the same effect*
  - d. It cannot be determined*
  
- 9. If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?**
  - a. 5.27 years*
  - b. 6.27 years*
  - c. 7.2 7 years*
  - d. 7.57 years*
  
- 10. The future value of first Rs. 100 in 2 years at 8% discount is:**
  - a. Rs. 116.64*
  - b. Rs. 111.64*
  - c. Rs. 164.64*
  - d. Rs. 164.61*

Total marks: 10

### **1. Investing activities include:**

- a. Purchase of property, plant and equipment*
- b. Cash received from the issuance of stock or equity in the business.*
- c. Purchases of stock or other securities (other than cash equivalents)*

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*d. Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

**4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.**

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay its financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. Ann is the principal and Mary is the agent
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

$$\begin{aligned} \$ 50,000 & \times 15\% = \$ 7,500 \\ (\$ 75,000 - 50,000) & \times 25\% = 6,250 \\ (\$ 100,000 - 75,000) & \times 34\% = 8,500 \\ (\$ 200,000 - 100,000) & \times 39\% = 39,000 \\ & \$ 61,250 \end{aligned}$$

Total tax is \$61,250.

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

- a. 39%
- b. 34%

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- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

7. Which of the given options is an advantage of a corporation that is advantage as a limited partner in a partnership?

*not an*

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

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d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

**2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress.**

**For this purpose you will study which category of ratios of the company?**

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. **At least one**

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

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

- a. comparison
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

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1. \_\_\_\_\_ is considered as bottom line in Income Statement?
  - M. Total Assets
  - N. Total Liabilities
  - O. Net Profit**
  - P. Gross Profit
2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?
  - M. Income Statement
  - N. Balance Sheet**
  - O. Cash Flow Statement
  - P. Owner's Equity Statement
3. \_\_\_\_\_ involves the sale of used securities from one investor to another?
  - M. Primary Market
  - N. Secondary Market**
  - O. Tertiary Market
  - P. None of the given options
4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?
  - M. Liquidity**
  - N. Financial Leverage
  - O. Profitability
  - P. Market Value
5. The process of planning and managing a firm's long-term investments is called:
  - M. Planning Process
  - N. Capital Structure
  - O. Capital Budgeting**
  - P. Managing Process
6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:
  - M. 6.37 %**

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N. 8.37 %

O. 15.7 %

P. 12.5 %<sup>1. The time between sale of inventory and collection of receivable.</sup>  
a account receivable

7. S&T Company have 35 thousands shares outstanding and the stock sold for \$10 per share at the end of year. Income Statement reported a net income of \$385,000. The Price Earning Ratio for S&T Company will be:

M. 8 times<sup>b operation cycle</sup>

N. 9 times<sup>c inventory period</sup>  
d none of above

O. 10 times<sup>2. Allow a bank to substitute its creditworthiness for the customer,</sup>

P. 11 times<sup>for a fee is called \_\_\_\_\_ -</sup>

8. While making Common-Size statement, Balance Sheet items are shown as percentage of :

O. Total Assets<sup>a open bank account</sup>  
b commercial draft

P. Total Liabilities<sup>c promisory note</sup>  
d banker acceptance

Q. Total Capital<sup>3. Standard deviations for Investment A and Investment B</sup>

R. Net Profit<sup>are 25% and 12% respectively. This indicates that:</sup>

9. A business, created as a distinct legal entity owned by one or more individuals, is known as:

L. Sole Proprietorship<sup>Select correct option:</sup>  
Investment A is less volatile than Investment B

M. Partnership<sup>Investment B is equally volatile to Investment A</sup>

N. Corporation<sup>Investment A is more volatile than Investment B</sup>

O. None of the given options<sup>Investment B is more volatile than</sup>

10. Which one of these is considered as a non-cash item?

L. Inventory<sup>Investment A</sup>

M. Accounts Payable

N. Accounts Receivable<sup>4. Find the average 2%,5%,6%,8%</sup>  
a 5%

O. Depreciation

- b 5.25 %**
- c 6%
- d 8%

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

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

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

- a balance sheet
- b income statement**
- c cash flow
- d none of above

8. Which of the following character is not a systematic risk?

- Market risk
- Interest risk
- Inflation risk

**Strike call in a company**

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

- a 100
- b150
- c50**
- d25

10. **An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.**

Select correct option:

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

**Rejected; accepted**

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

Select correct option:

- IRR (Internal Rate of Return)
- MIRR (Modified Internal Rate of Return)
- WACC (Weighted Average Cost of Capital) 146**
- AAR (Average Accounting Return)

12. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt pg 143**

Cost of preferred stock

Cost of common equity

Cost of retained earnings

13. In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

**Independent**

Correlated

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

Select correct option:

10.63%

20.20%

35.12%

**41.30%**

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

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

17. Find the cash cycle inventory period is 38 days account payable period is 50 days and average account receivable period is 30 days

a. 68

**b. 18**

c 80  
d 118

Question 63= operating cash flow of Rs. 200,000. Net working capital has decreased by Rs. 50,000 and there is a net capital spending of Rs. 0 during the year. Calculate total cash flow. (3marks)

Solution:

Total cash flow=200000-(-50000)

total cash flow =250,000

Question 64= snk company find the profitability index dividend 2 and price= 200 (3marks)

solution= 2/200=0.01=1answer

question 65=3marks

Business Finance –ACC501					
State of Economy	P	Stock L		Stock U	
		RL	PxRL	RU	PxRU
Recession	0.5	-0.20	-0.10	0.30	0.15
Boom	0.5	0.70	0.35	0.10	0.05
	1.0	E(RL) = 0.25		E(RU) = 0.20	

#### Risk Premium

- The difference between the return on a risky investment and that on a risk-free investment.
- Suppose, risk-free investments are currently offering 8 percent. In other words, risk-free rate ( $R_f$ ) is 8%.
- Using this information, we can calculate the projected risk premia on stocks U and L.

•Risk Premium (U) = expected return – Risk-free rate  

$$= E(R_U) - R_f$$

$$= 20\% - 8\% = 12\%$$

•Risk Premium (L) = 25% - 8% = 17%

•Unequal Probabilities Case:

State of Economy	P	Stock L		Stock U	
		RL	PxRL	RU	PxRU
Recession	0.8	-0.20	-0.16	0.30	0.24
Boom	0.2	0.70	0.14	0.10	0.02
	1.0	E(RL) = -0.02		E(RU) = 0.26	

•If the risk-free rate is 10%

•Risk Premium (U) =  $E(R_U) - R_f$

question 66= define systematic risk and unsystematic risk and also define which risk is eliminated by diversification 5 marks

Question 67= which issue cover in finance and investment area 5marks

question 68= credit policy and its component 5marks

question 69= define optimal policy 5marks

### ACC 501 Mcqs for Final Term

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

Select correct option:

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

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

**2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?**

Select correct option:

0.101

0.220

0.667

**0.818**

**Reference:  $(1-0.45=0.55)$**

**$=0.45/0.55=0.818$**

**3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?**

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

**Reference:  $8000*12/100=8960$**

**4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?**

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

**Reference:  $D*1+g/r-g$**

**$4.75*(1+0.5/4.75-0.5)=71.25$**

**5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

**Reference:  $(1+APR/m)^m-1$**

**APR=9**

**M=30**

**$(1+9/30)^30-1=9.38$**

**6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes

200 votes

300 votes

400 votes

Reference:  $100 \times 4 = 400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

Reference:  $6 / 0.15 = 40$

8. Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell an asset?

Select correct option:

**Market Value**

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and percentages in the report?

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

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

Select correct option:

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

**None of the given options pg 106**

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

Select correct option:

**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

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

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

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

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

18. **Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

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

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

**All of the given options**

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

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

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

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

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

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

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

Select correct option:

$D_2 = D_1 \times (1 + g)$

$D_2 = D_0 \times (1 + g)^2$

$D_2 = D_0 \times (1 + g)^2$

**All of the given options pg 92**

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

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

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

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

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

**26. Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

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

Debt provides the voting rights to the bondholders.

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

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

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

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

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

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

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

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

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

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

Select correct option:

Primary Market

**Secondary Market pg 100**

Tertiary Market

None of the given options

**33. A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

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

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

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

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

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

Select correct option:

Payback Period

### Net Present Value pg 118

Average Accounting Return

36.

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

Select correct option:

### Payback Period pg 119

Net Present Value

Profitability Index

Internal Rate of Return

37. **Which of the following is an example of positive covenant?**

Select correct option:

### Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

38. **Which of the following is the most common capital budgeting technique?**

Select correct option:

Payback Period

### Net Present Value

Internal Rate of Return

Profitability Index

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

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

### Profitability Index (PI) pg 119

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

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

### Average Accounting Return pg 119

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

Select correct option:

Dividend yield

### Cumulative dividends

Voting rights

Tax deductible dividends

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

Select correct option:

### Government bonds pg 86

Zero coupon bonds

Floating-rate bonds

Euro bonds

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

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

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

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$60+60=120/1000=12\%$

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

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

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

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

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

46. Which of the following is NOT an important feature of treasury notes and bonds?

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

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

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to

**generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

**48. In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

**49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

**50. Which of the following is a characteristic of preferred stock?**

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

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

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds

Euro bonds

**52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

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

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

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

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

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

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

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

Select correct option:

NPV is greater than Zero

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

NPV is less than Zero

All of the given options

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

Select correct option:

Fluctuations Risk

**Interest Rate Risk pg75**

Real-Time Risk

Inflation Risk

**58. All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

**All of the given options**

**59. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**60. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

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

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

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

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

**66. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

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

Select correct option:

5 days

36 days

48 days

**73 days**

$750000/150000=5$

$365/5=73\text{days}$

**68. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**69. In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

**70. Which of the following ratios are particularly interesting to short-term creditors?**

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

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

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

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

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

**73. me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

**74. of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

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

Select correct option:

Income Statement

## Balance Sheet

Owner's Equity Statement

Cash Flow Statement

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

Select correct option:

Dividends

## Retained Earnings

Capital Gain

None of the given options

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

Select correct option:

Current Ratio

Quick Ratio

## Cash Coverage Ratio

Cash Ratio

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

Select correct option:

## Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

## Purchase of Fixed Assets

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

## Operating efficiency

Asset use efficiency

Financial policy

Dividend policy

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

Select correct option:

Accountants

## Financial Analysts

Auditors

Marketers

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

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

## Market Value Ratios

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

Select correct option:

**Positive**

Negative

zero

None of the given options

**84. which of the following is not a form of business organization**

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities

Income = Fixed Assets - Current Assets

Income = Revenues - Current Liabilities

**Income = Revenues - Expenses**

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

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

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

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

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

Select correct option:

**Debt securities or bonds** lec 17

Common Stocks

Preferred Stock

All of the given options

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

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

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

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

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

Select correct option:

Revenue

Expenses

### **Depreciation**

All of the given options

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

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

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

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

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

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

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

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

98. **Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

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

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

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

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

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

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnerhsip

Corporation

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

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

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

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

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

Select correct option:

Net loss

**Net worth**

Markup

Markdown

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

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

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

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

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

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

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

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

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

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. **Which of the following relationships holds TRUE if a bond sells at a**

**discount?**

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

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

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

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

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

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

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

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

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

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

**Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

**117. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. **The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

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

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

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

120. **Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

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

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

122. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

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

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

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

123. **Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

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

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

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

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

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

**Positive**

Negative

zero

None of the given options

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

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

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

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

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

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

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

Select correct option:

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

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

## Financial Leverage

Manufacturing Leverage

None of the given options

b

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

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

**132. Which of the following is an example of positive covenant?**

Select correct option:

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

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**133. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

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

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

**135. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

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

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$4100 - 3000 = 1100$

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

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

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

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

140. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

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

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

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

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

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

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

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

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

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

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

**Profit margin=net income/ sales\*100**

**Profit margin=6000/100000\*100= 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

**151. Mr. Y and Mr. Z are planning to share their capital to run a business.**

**They are going to employ which of the following type of business?**

**Select correct option:**

Sole-proprietorship

**Partnership**

Corporation

None of the given options

**152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the**

**weights for assets A and B will be \_\_ and \_\_ respectively.**

**Select correct option:**

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

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

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

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

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

**155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

**156. Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

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

**157. The preferred stock of a company currently sells for Rs. 25 per share.**

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

**Select correct option:**

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

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

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

**159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

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

**Select correct option:**

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

**161. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

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

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

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

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero

## ACC 501 mcqs

JOPSON ALI

1. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

**All of the given options**

3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar**

Limit

## Surplus

4. Which of the following is the acronym for GAAP?

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

5. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?

Select correct option:

To maintain a high ratio of current assets to sales

**To maintain a low ratio of current assets to sales**

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

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

6. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

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

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

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

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

9. Which of the following terms refers to the costs to store and finance the assets?  
Select correct option:

Carrying costs  
Shortage costs  
Storing costs  
financing costs

10. Which one of the following statement is INCORRECT regarding MACRS depreciation?  
Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes.

11. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

Annual depreciation remains constant every year even by using different rates.

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

12. Which of the following statement is CORRECT regarding compound interest?  
Select correct option:

It is the most basic form of calculating interest.  
It earns profit not only on principal but also on interest.  
It is calculated by multiplying principal by rate multiplied by time.  
It does not take into account the accumulated interest for calculation.

13. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?  
Select correct option:

Sole-proprietorship  
Partnership  
Corporation  
None of the given options

14. Time value of money is an important finance concept because:  
Select correct option:

It takes risk into account  
It takes time into account  
It takes compound interest into account  
**All of the given options**

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

5.00 percent  
7.00 percent  
8.45 percent  
10.0 percent

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

**Liquidity Ratios**  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

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

CF from Assets = CF to Creditors – CF to Stockholder  
CF from Assets = CF to Stockholders – CF to Creditors  
CF to Stockholders = CF to Creditors + CF from Assets  
**CF from Assets = CF to Creditors + CF to Stockholder**

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

NPV is greater than Zero  
NPV is equal to Zero  
NPV is less than Zero  
**All of the given options**

19. Which of the following is (are) a non-cash item(s) ?  
Select correct option:

Revenue  
Expenses  
**Depreciation**

All of the given options

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

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

None of the given options

21. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.

Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

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

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

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

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

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

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

Corporation

24. Business risk depends on which of the following risk of the firm's assets ?

Select correct option:

Systematic Risk

Diversifiable Risk

Unsystematic Risk

None of the given options

25. Which of the following type of risk can be eliminated by diversification?

Select correct option:

**Systematic Risk**

**Market Risk**

**Unsystematic Risk**

**None of the given options**

26. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?

Select correct option:

**Profit Margin**

**Return on Assets**

**Return on Equity**

**Debt-Equity Ratio**

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

Select correct option:

**Financial institutions**

**International finance**

**Investments**

**All of the given options**

28. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt**

**Cost of preferred stock**

**Cost of common equity**

**Cost of retained earnings**

29. Systematic Risk is also known as:

Select correct option:

**Diversifiable Risk**

**Market Risk**

**Residual Risk**

**Asset-specific Risk**

30. ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70  
120  
200  
280

ACC501 All Solved Mid Term MCQs

<i>Choose the Most Appropriate Answer among the given choices.</i>
<b>1. The difference between the return on a risky investment and that on a risk-free investment.</b>
A. Risk Return <b>B. Risk Premium</b> C. Risk Factor D. None of the above
<b>2. A group of assets such as stocks and bonds held by an investor.</b>
A. <b>Portfolio</b> B. Capital Structure C. Budget D. None of the above
<b>3. If the variance or standard deviation is larger then the spread in returns will be:</b>
A. Less <b>B. More</b> C. Same D. None of the Above
<b>4. The following risk is entirely wiped out by Diversification.</b>
A. Systematic Risk <b>B. Unsystematic Risk</b> C. Portfolio Risk D. Total Risk
<b>5. The objective for using the concept of Diversification is to :</b>

- A. Minimize the Risk
- B. Maximize the return
- C. A & B
- D. None of the Above

**6. While studying the relationship in risk and return, It is commonly known that:**

- A. Higher the risk, lower the return
- B. Lower the risk, higher the return
- C. **Higher the risk, higher the return**

ACC501 All Solved Mid Term MCQs

- D. None of the above

**7. This type of risk affects almost all types of assets.**

- A. **Systematic Risk**
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

**MCQ # 08 – 10 are based on the following data:**

**Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).**

**8. According to the given data, the Capital Gain will be:**

- A. 10,500
- B. **7,500**
- C. 10,000
- D. 7,000

**9. According to the given data, the Dividend yield will be:**

- A. 8.50 %
- B. 6.25%
- C. **8.00%**
- D. 6.67%

**10. According to the given data, Total Percentage Returns will be:**

- A. 20%
- B. 28%**
- C. 32%
- D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. Primary market

ACC501 All Solved Mid Term MCQs

- C. Capital market
- D. Money market

2. In financial statement analysis, shareholders focus will be on the:

- A. Liquidity of the firm
- B. Long term cash flow of the firm
- C. Profitability and long term health of the firm
- D. Return on investment

3. The statement of cash flows helps users to assess and identify all of the following except:

- A. The impact of buying and selling fixed assets.
- B. The company's ability to pay debts, interest and dividends.
- C. A company's need for external financing.
- D. The company's reliance on capital leases.

4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?

- A. Fall
- B. Rise
- C. Remain unchanged
- D. None of the given option

5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?

- A. 1.42215
- B. 2.75886
- C. 3.75886
- D. 4.08998

6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?

- A. Compounded daily
- B. Compounded quarterly

C. Compounded semiannually

D. Compounded annually

ACC501 All Solved Mid Term MCQs

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?

A. a.Rs. 200 million

B. b.Rs.240 million

C. c.Rs.275 million

D. d.Rs.290 million

8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?

A. 6.12 times

B. 7.11 times

C. 8.11 times

D. 9.11 times

9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?

A. 20.00%

B. 20.50%

C. 21.00%

D. 21.99%

10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?

A. Rs.60, 000

B. Rs.64, 000

C. Rs.72, 000

D. Rs.74, 000

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

a. Rs.60

b. Rs.64

c. Rs.68

d. Rs.74

ACC501 All Solved Mid Term MCQs

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

a. Rs.149.8

- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. 37%
- d. 47%

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

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year Cash Flows

- 01 Rs.500,000
- 02 Rs.800,000
- 03 Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

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

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders

6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.

- a. Profitability index
- b. Payback period
- c. **Internal rate of return**
- d. Net present value

7. If two investments are mutually exclusive, then taking one of them means that:

- a. **We cannot take the other one**
- b. The other is pending for the next period
- c. The projects are independent
- d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:

- a. -1
- b. 0
- c. **1**
- d. All of the given options

9. Average Accounting Return is a measure of accounting profit relative to:

- a. **Book value**
- b. Intrinsic value
- c. Cost
- d. Market value

10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:

- a. Erosion
- b. Piracy
- c. Cannibalism
- d. **All of the given options**

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

- a) **Operating Cycle**
- b) Cash Cycle
- c) Receivable period
- d) Inventory period

**2. Which of the following does not affect cash cycle of a company?**

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

**3. Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- a) 100,000
- b) **97,000**

- c) 103,000
- d) 50,000

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**4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?**

- a) 3.347 approximately
- b) 5.347 approximately
- c) 2.347 approximately**
- d) 6.253 approximately

**5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?**

- a) 234 days
- b) 223 days**
- c) 245 days
- d) 230 days

**6. Which of the following is the cheapest source of financing available to a firm?**

- a) Bank loan
- b) Commercial papers
- c) Trade credit**
- d) None of the given options.

**7. Which of the following illustrates the use of a hedging (or matching) approach to financing?**

- a) Short-term assets financed with long-term liabilities.
- b) Permanent working capital financed with long-term liabilities.**
- c) Short-term assets financed with equity.
- d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture

**8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.**

- a) Cash discount**
- b) Quantity discount
- c) Float discount
- d) All of the given options

**9. If a firm has a net float less than zero, then which of the following statements is true about the firm.**

- a) The firm's disbursement float is less than its collection float.**
- b) The firm's collection float is equal to zero.
- c) The firm's collection float is less than its disbursement float.
- d) None of the given options.

**10. Financing a long-lived asset with short-term financing would be**

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.

- a) 66.67%
- b) 33.34%
- c) 0%
- d) 60%**

2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be

- a) 11.15%
- b) 16.13%
- c) 15.80%**
- d) 13.14%

3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?

- a) They have a direct relationship
- b) They have an indirect relationship**
- c) They have spontaneous relationship
- d) None of the given options

4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.

- a) Financial risk**
- b) Portfolio risk
- c) Operating risk
- d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?

- a) \$202,200,000
- b) \$247,500,000**
- c) \$283,500,000
- d) \$321,250,000

6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?

- a) 13.5%
- b) 17.75%
- c) 15.79%**

d) 17.13%

7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%. This increase in cash item is a

a) Source of cash

b) Use of cash

**c) Neither of the source of cash nor a use of cash**

d) None of the given option

8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?

a) 62 days

b) 18 days

**c) 56 days**

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d) 19 days

9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be

a) Rs.1,000,000

b) Rs.1,200,000

**c) Rs800,000**

d) Rs.1,400,000

10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.

**a) Homemade leverage**

b) Financial leverage

c) Operating leverage

d) None of the given option

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

**1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.**

**E.** Sunk cost

**F.** Opportunity cost

**G.** Financing cost

**H.** All of the given options

**2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?**

- E. 13.07 %
- F. 15.67 %
- G. 16.00 %
- H. 18.80 %

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.

**E. Portfolio**

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- F. Diversification
- G. Stock Bundle
- H. None of the given options

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

- E. Net Present Value (NPV)
- F. Profitability Index (PI)
- G. Average Accounting Return (AAR)
- H. Internal Rate of Return (IRR)

5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

- E. 37.5 %
- F. 47.5 %
- G. 62.5 %
- H. 72.5 %

6. A risk that influences a large number of assets is known as:

- E. Systematic Risk
- F. Market Risk
- G. Non-diversifiable Risk
- H. All of the given options

7. Which of the following risk can be eliminated by diversification?

- E. Systematic Risk
- F. Unsystematic Risk
- G. A & B
- H. None of the given options

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

- E. 2.6 Years
- F. 3.1 Years
- G. 3.6 Years
- H. 4.1 Years

9. A model which makes an assumption about the future growth of dividends is known as:

- E. Dividend Price Model

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- I. Dividend Growth Model
- F. Dividend Policy Model
- G. All of the given options

10. Which of the following is not a quality of IRR ?

- E. Most widely used
- J. Ideal to rank the mutually exclusive investments
- F. Easily communicated and understood
- G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

- I. Ordinary Annuity
- J. Perpetuity
- K. Dividend
- L. Interest

2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?

- I. 15.00 %
- J. 15.34 %
- K. 15.87 %
- L. 16.42 %

3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

- I. loan; receiver
- J. dividend; issuer
- K. dividend, receiver
- L. loan; issuer**

4. When the interest rates fall, the bond is worth \_\_\_\_\_.

- I. More**
- J. Less
- K. Same

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- L. All of the given options.

5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?

- I. 30 %
- J. 50 %
- K. 70 %**
- L. 90 %

6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:

- I. Increase Profit Margin
- J. Increase Total Assets Turnover
- K. Sell new shares
- L. All of the given options.**

7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.

- I. Present Value**
- J. Future Value
- K. Capital Gain
- L. Net Profit

8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?

- K. Rs. 319.45
- L. Rs. 390.75
- M. Rs. 419.45**
- N. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

- H. Time to maturity
- I. Coupon rate
- J. A and B**
- K. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

- H. 8 %**
- I. 10 %

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- J. 12 %**
- K. 14 %

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

**1. In the formula  $k_e \geq (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?**

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

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

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

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a**

**15% required rate of return?**

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

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

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

**5. A project has an initial investment of Rs. 400,000. What would be the NPV for the project if it has a profitability index of 1.15?**

- A. Rs. 30000
- B. Rs. 40,500
- C. Rs. 50,000
- D. Rs. 60,000**

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

- ( I ) Perform a post-audit for completed projects;**
- ( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;**
- ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I**
- D. II, III, IV, V, and I

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

**Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a project for ABC Company that the company is planning to undertake. He has suggested that the project is feasible.**

**Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is not feasible.**

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

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II**
- D. Opportunity cost in both Case I and Case II

**8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?**

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %**

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

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

- A. 0.30**

- B. 0.40
- C. **0.60**
- D. 0.75

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

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

- A. Relevant Cash Flows
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**B. Incremental Cash Flows**

- C. Negative Cash Flows
- D. All of the given option

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. **All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. **Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. **Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. **Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. **Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

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

- A. Rs. 1,556
- B. **Rs. 1,712**

C. Rs. 2,082

D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

A. Convertible Bonds

B. Income Bonds

C. Put Bonds

D. None of the given options

8. Interest rates and bond prices :

A. Move in the same direction

B. Move in the opposite direction

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

D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

A. Less

B. Zero

C. More

D. None of the given options

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

A. 6.639%

B. 8.251%

C. 10.00%

D. 11.43%

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

Sunk

Opportunity

**Highlight the correct option:**

1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

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a. Time interest earned

b. Cash coverage ratio

c. Profit margin ratio

d. None of the given option

2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?

a. Return on short as well as long term investments

- b. Return on equity and return on debt
- c. Return on equity and profit margin
- d. All of the given options

3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?

- a. Increase
- b. Decrease
- c. Remain unchanged
- d. None of the given option

4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?

- a. 0.38 times
- b. 0.58 times
- c. 0.78 times
- d. 0.98 times

5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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- a. Rs. 2.5 million
- b. Rs. 3 million
- c. Rs. 3.5 million
- d. Rs.4.5 million

6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.

- a. 9.414 %
- b. 10.414 %
- c. 11.412 %
- d. 12.414 %

7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?

- a. Rs.150 millions
- b. Rs.250 millions
- c. Rs.350 millions
- d. Rs.500 millions

8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by

judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?

- a. 12.29%
- b. 14.29%
- c. 16.29%
- d. 18.92%

9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?

- a. 25 %

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- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. Rs.271.415 millions
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**

- a. Operating efficiency
- b. Asset usage efficiency
- c. Financial leverage
- d. All of the given options

2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**

- a. Return on assets ratio
- b. Retention ratio
- c. Leverage ratio
- d. Profit margin

3. **Which of the following does not change Current ratio of a business:**

- a. Efficient usage of current assets
- b. Change in the nature of the firm
- c. Change in Accounting method of the firm
- d. Change in the management of the firm

4. **Present value factor is:**

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

5. **Depreciation expense is:**

- a. *Operating expense*
- b. *Investing expense*

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- c. *Financing expense*
- d. *All of the given options*

6. **Internal growth rate tell how rapidly:**

- a. *The firm grows*
- b. *Sales of the firm grows*
- c. *Profit of the firm grows*
- d. *None of the given options*

7. **You can determine the number of periods (n) in a present value calculation, if you know:**

- a. *Future amount*
- b. *Present value*
- c. *Interest rate*
- d. *All of the given options*

8. **Which one of the present value factor is larger?**

- a. *PV of 1 factor for 10%*
- b. *PV of 1 factor for 12%*
- c. *Both have the same effect*
- d. *It cannot be determined*

9. **If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?**

- a. *5.27 years*
- b. *6.27 years*
- c. *7.27 years*
- d. *7.57 years*

10. **The future value of first Rs. 100 in 2 years at 8% discount is:**

- a. *Rs. 116.64*
- b. *Rs. 111.64*
- c. *Rs. 164.64*
- d. *Rs. 164.61*

Total marks: 10

1. **Investing activities include:**

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*

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- d. *Both a & c*

2. **Changes in cash from financing are "cash in" when:**

- a. *Capital is raised*
- b. *Assets increased*
- c. *Liabilities decreased*
- d. *Cash withdrawn*

3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:

- a. Cash from operations activities
- b. Cash from financing activities
- c. Cash from investing activities
- d. None of the given options

4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.

- a. marketable securities
- b. Cash equivalents
- c. Treasury bills
- d. All of the given options

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

- a. Actual cash income
- b. Un earned income
- c. Coming year income
- d. Last year's income

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

- a. Has performed in the past
- b. Might perform in the future
- c. Both a & b
- d. None of the given options

7. The current ratio is also known as:

- a. Working capital ratio
- b. Leverage ratio
- c. Turnover ratio
- d. None of the given options

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

- a. Gearing
- b. Acid test ratio
- c. Working capital management
- d. All of the given options

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9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. Ann is the principal and Mary is the agent.
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

$$\begin{aligned} \$ 50,000 \times 15\% &= \$ 7,500 \\ (\$ 75,000 - 50,000) \times 25\% &= 6,250 \\ (\$ 100,000 - 75,000) \times 34\% &= 8,500 \\ (\$ 200,000 - 100,000) \times 39\% &= \underline{39,000} \\ \$ 61,250 \end{aligned}$$

Total tax is \$61,250.

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

- a. 39%
- b. 34%

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- c. 15%
- d. 25%

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

- a. Charter
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. Cash outflow to purchase bonds issued by another company

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

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

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

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- d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

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

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. At least one

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

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

- a. comparison
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

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<b>1. _____ is considered as bottom line in Income Statement?</b>
---

- M. Total Assets
- N. Total Liabilities
- O. Net Profit**
- P. Gross Profit

2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?

- M. Income Statement
- N. Balance Sheet**
- O. Cash Flow Statement
- P. Owner's Equity Statement

3. \_\_\_\_\_ involves the sale of used securities from one investor to another?

- M. Primary Market
- N. Secondary Market**
- O. Tertiary Market
- P. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

- M. Liquidity**
- N. Financial Leverage
- O. Profitability
- P. Market Value

5. The process of planning and managing a firm's long-term investments is called:

- M. Planning Process
- N. Capital Structure
- O. Capital Budgeting**
- P. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

- M. 6.37 %**

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

**1. The difference between the return on a risky investment and that on a risk-free investment.**

- A. Risk Return
- B. Risk Premium**
- C. Risk Factor
- D. None of the above

**2. A group of assets such as stocks and bonds held by an investor.**

- A. Portfolio**
- B. Capital Structure
- C. Budget
- D. None of the above

**3. If the variance or standard deviation is larger then the spread in returns will be:**

- A. Less
- B. More**
- C. Same
- D. None of the Above

**4. The following risk is entirely wiped out by Diversification.**

- A. Systematic Risk
- B. Unsystematic Risk**
- C. Portfolio Risk
- D. Total Risk

- N. 8.37 %
- O. 15.7 %**
- P. 12.5 %

**7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:**

- M. 8 times
- N. 9 times**
- O. 10 times
- P. 11 times

**8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :**

- O. Total Assets**
- P. Total Liabilities
- Q. Total Capital
- R. Net Profit

**9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:**

- L. Sole Proprietorship
- M. Partnership
- N. Corporation**
- O. None of the given options

**10. Which one of these is considered as a non-cash item?**

- L. Inventory
- M. Accounts Payable
- N. Accounts Receivable
- O. Depreciation**

**5. The objective for using the concept of Diversification is to :**

- A. Minimize the Risk
- B. Maximize the return
- C. A & B**
- D. None of the Above

**6. While studying the relationship in risk and return, It is commonly known that:**

- A. Higher the risk, lower the return
- B. Lower the risk, higher the return
- C. Higher the risk, higher the return**

D. None of the above

7. This type of risk affects almost all types of assets.

- A. Systematic Risk
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. 7,500
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. 8.00%
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. 28%
- C. 32%
- D. 35%

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1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. Primary market

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- C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually

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7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000

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1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64
  - c. Rs.68
  - d. Rs.74

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

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

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

- a. 17%
- b. 27%
- c. 37%
- d. 47%

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

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

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

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

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

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

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

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

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

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

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10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

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Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- 1
  - 0
  - 1
  - All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- Book value**
  - Intrinsic value
  - Cost
  - Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- Erosion
  - Piracy
  - Cannibalism
  - All of the given options**

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

- Operating Cycle**
- Cash Cycle
- Receivable period
- Inventory period

**2. Which of the following does not affect cash cycle of a company?**

- Inventory period
- Accounts receivable period
- Accounts payable turnover
- None of the given option**

**3. Mr.Munir purchased goods of Rs.100,000 on June01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- 100,000
- 97,000**
- 103,000
- 50,000

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4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- 3.347 approximately
  - 5.347 approximately
  - 2.347 approximately**
  - 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- 234 days
  - 223 days**
  - 245 days
  - 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- Bank loan
  - Commercial papers
  - Trade credit**
  - None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- Short-term assets financed with long-term liabilities.
  - Permanent working capital financed with long-term liabilities.**
  - Short-term assets financed with equity.
  - All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- Cash discount**
  - Quantity discount
  - Float discount
  - All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- The firm's disbursement float is less than its collection float.**
  - The firm's collection float is equal to zero.
  - The firm's collection float is less than its disbursement float.
  - None of the given options.
10. Financing a long-lived asset with short-term financing would be

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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- d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

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

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.
- E. Sunk cost
  - F. Opportunity cost**
  - G. Financing cost
  - H. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- E. 13.07 %
  - F. 15.67 %
  - G. 16.00 %
  - H. 18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- E. Portfolio**

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- F. Diversification
  - G. Stock Bundle
  - H. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- E. Net Present Value (NPV)
  - F. Profitability Index (PI)**
  - G. Average Accounting Return (AAR)
  - H. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- E. 37.5 %
  - F. 47.5 %
  - G. 62.5 %**
  - H. 72.5 %
6. A risk that influences a large number of assets is known as:
- E. Systematic Risk
  - F. Market Risk
  - G. Non-diversifiable Risk
  - H. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
  - F. Unsystematic Risk**
  - G. A & B
  - H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. 2.6 Years**
  - F. 3.1 Years
  - G. 3.6 Years
  - H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model

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### **I. Dividend Growth Model**

F. Dividend Policy Model

G. All of the given options

### **10. Which of the following is not a quality of IRR ?**

E. Most widely used

**J. Ideal to rank the mutually exclusive investments**

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

### **1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.**

I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

### **2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?**

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

### **3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

### **4. When the interest rates fall, the bond is worth \_\_\_\_\_.**

**I. More**

J. Less

K. Same

L. All of the given options.

**5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**

I. 30 %

J. 50 %

K. 70 %

L. 90 %

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**6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

L. All of the given options.

**7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**

I. Present Value

J. Future Value

K. Capital Gain

L. Net Profit

**8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**

K. Rs. 319.45

L. Rs. 390.75

M. Rs. 419.45

N. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

H. Time to maturity

I. Coupon rate

J. A and B

K. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

H. 8 %

I. 10 %

ACC501 All Solved Mid Term MCQs

J. 12 %

K. 14 %

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

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

A. The expected capital gains yield from a common stock

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

C. The dividend yield from a preferred stock

D. The interest payment from a bond

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

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

A. 100 Votes

B. 200 Votes

**C. 300 Votes**

D. 400 Votes

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

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

**15% required rate of return?**

A. Rs. 30

**B. Rs. 40**

C. Rs. 50

D. Rs. 60

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

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

B. These stocks have dividend priority over common stocks

C. These stocks have stated liquidating value

D. These bonds hold credit ratings much like bonds

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

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

A. Rs. 30000

**B. Rs. 40,500**

C. Rs. 50,000

**D. Rs. 60,000**

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

**( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;  
( IV ) Select value-maximizing projects; ( V ) Evaluate projects.**

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

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

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

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

**suggested that the project is feasible.**

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

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

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

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

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II
- D. Opportunity cost in both Case I and Case II

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

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

**What will**

**be the total percentage return?**

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %

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

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

- A. 0.30
- B. 0.40
- C. 0.60
- D. 0.75

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

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

- A. Relevant Cash Flows

- B. Incremental Cash Flows**
- C. Negative Cash Flows
- D. All of the given option

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

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

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

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

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

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

## ACC501 All Solved Mid Term MCQs

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

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

- A. Convertible Bonds**
- B. Income Bonds
- C. Put Bonds
- D. None of the given options

8. Interest rates and bond prices :

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

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

- A. 6.639%
- B. 8.251%
- C. 10.00%
- D. 11.43%**

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

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

- Sunk
- Opportunity

Highlight the correct option:

1) The alternative name used for Interest Coverage Ratio is

\_\_\_\_\_.

## ACC501 All Solved Mid Term MCQs

- a. **Time interest earned**  
b. Cash coverage ratio  
c. Profit margin ratio  
d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
- a. Return on short as well as long term investments  
b. Return on equity and return on debt  
c. **Return on equity and profit margin**  
d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase  
b. **Decrease**  
c. Remain unchanged  
d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times  
b. 0.58 times  
c. **0.78 times**  
d. 0.98 times
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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## ACC501 All Solved Mid Term MCQs

- a. Rs. 2.5 million  
b. Rs. 3 million  
c. Rs. 3.5 million  
d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.
- a. 9.414 %  
b. 10.414 %  
c. 11.412 %  
d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions  
b. Rs.250 millions  
c. **Rs.350 millions**  
d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is  $\frac{3}{5}$ . What would be the internal growth rate of the Sian Corporation?
- a. 12.29%  
b. **14.29%**  
c. 16.29%  
d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of  $\frac{4}{6}$ ?
- a. **25 %**

## ACC501 All Solved Mid Term MCQs

- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

*Choose and highlight the right option:*

1. **ROE in DuPont identity is affected by:**
  - a. **Operating efficiency**
  - b. **Asset usage efficiency**
  - c. **Financial leverage**
  - d. *All of the given options*
2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**
  - a. **Return on assets ratio**
  - b. *Retention ratio*
  - c. **Leverage ratio**
  - d. **Profit margin**
3. **Which of the following does not change Current ratio of a business:**
  - a. **Efficient usage of current assets**
  - b. **Change in the nature of the firm**
  - c. **Change in Accounting method of the firm**
  - d. *Change in the management of the firm*
4. **Present value factor is:**
  - a.  $(1+r)^t$
  - b.  $(1-r)^t$
  - c.  $1/(1+r)^t$
  - d.  $1/(1+r)^{1/t}$
5. **Depreciation expense is:**
  - a. *Operating expense*
  - b. **Investing expense**

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- c. *Financing expense*
  - d. *All of the given options*
6. *Internal growth rate tell how rapidly:*
- a. *The firm grows*
  - b. *Sales of the firm grows*
  - c. *Profit of the firm grows*
  - d. *None of the given options*
7. *You can determine the number of periods (n) in a present value calculation, if you know:*
- a. *Future amount*
  - b. *Present value*
  - c. *Interest rate*
  - d. *All of the given options*
8. *Which one of the present value factor is larger?*
- a. *PV of 1 factor for 10%*
  - b. *PV of 1 factor for 12%*
  - c. *Both have the same effect*
  - d. *It cannot be determined*
9. *If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?*
- a. *5.27 years*
  - b. *6.27 years*
  - c. *7.2 7 years*
  - d. *7.57 years*
10. *The future value of first Rs. 100 in 2 years at 8% discount is:*
- a. *Rs. 116.64*
  - b. *Rs. 111.64*
  - c. *Rs. 164.64*
  - d. *Rs. 164.61*

Total marks: 10

1. *Investing activities include:*

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*

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*d. Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

**4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.**

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay its financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

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

- a. Ann is the principal and Mary is the agent .
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

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

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

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

$$\begin{aligned} \$ 50,000 & \times 15\% = \$ 7,500 \\ (\$ 75,000 - 50,000) & \times 25\% = 6,250 \\ (\$ 100,000 - 75,000) & \times 34\% = 8,500 \\ (\$ 200,000 - 100,000) & \times 39\% = 39,000 \\ & \$ 61,250 \end{aligned}$$

Total tax is \$61,250.

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

- a. 39%
- b. 34%

## ACC501 All Solved Mid Term MCQs

- c. 15%
- d. 25%

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

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

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

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

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

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

7. Which of the given options is an advantage of a corporation that is advantage as a limited partner in a partnership?

*not an*

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

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

- a. money
- b. **capital**
- c. primary
- d. secondary

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

- a. Financial management
- b. Profit maximization
- c. **Agency theory**

## ACC501 All Solved Mid Term MCQs

d. Social responsibility

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

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

**2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress.**

**For this purpose you will study which category of ratios of the company?**

- a. Profitability Ratios
- b. **Liquidity ratios**
- c. Debt ratios
- d. Turnover ratios

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

- e. 0
- f. 0.2
- g. 0.1
- h. At least one

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

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

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

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

## ACC501 All Solved Mid Term MCQs

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

- a. comparison
- b. identification
- c. calculation
- d. liability

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

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

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

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

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

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

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

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

## ACC501 All Solved Mid Term MCQs

1. \_\_\_\_\_ is considered as bottom line in Income Statement?
  - M. Total Assets
  - N. Total Liabilities
  - O. Net Profit**
  - P. Gross Profit
2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?
  - M. Income Statement
  - N. Balance Sheet**
  - O. Cash Flow Statement
  - P. Owner's Equity Statement
3. \_\_\_\_\_ involves the sale of used securities from one investor to another?
  - M. Primary Market
  - N. Secondary Market**
  - O. Tertiary Market
  - P. None of the given options
4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?
  - M. Liquidity**
  - N. Financial Leverage
  - O. Profitability
  - P. Market Value
5. The process of planning and managing a firm's long-term investments is called:
  - M. Planning Process
  - N. Capital Structure
  - O. Capital Budgeting**
  - P. Managing Process
6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:
  - M. 6.37 %**

**ACC 501 mcqs**

**ACC501 All Solved Mid Term MCQs**

the correct option: N. 8.37 %

structuring budgeting O. 15.7 %

the P. 12.5 %

following is the process of planning and managing a firm's long-term investments?

- Capital Rationing
- Working Capital Management

following refers to the cash flows that result from the firm's day-to-day activities of prod

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

g Cash  
Cash  
g Cash  
given

M. 8 times

N. 9 times

on rate of a correct option: O. 10 times

P. 11 times

options

floating-rate bond is capped and upper and lower rates are called:

- Collar
- Surplus

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

the for GAAP?

O. Total Assets

P. Total Liabilities

Q. Total Capital

R. Net Profit

Select correct option:

- Generally Applied Accountability Principles
- Assessment Principles
- Accounting Principles
- Assessment Principles

Accounting  
y Accepted  
Accepted

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

the g size of

L. Sole Proprietorship

M. Partnership

N. Corporation

O. None of the given options

investments in current assets?

ratio of current assets to sales

ratio of current assets to sales

debt and more long-term debt

debt and less long-term debt

known as:

10. Which one of these is considered as a non-cash item?

L. Inventory

M. Accounts Payable

N. Accounts Receivable

O. Depreciation

Cash Ratio options

planning to share their capital to run a business. They are going to employ v business?

- Partnership
- None of the given options

option:  
Current Ratio

and Mr. Z are type of correct option: proprietorship ion

ve Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively. correct option:

tion  
he given options

ue of money is an important finance concept because:

rrect option:

risk into account

me into account

ompound interest into account

given options

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

rrect option:

ent

ent

ent

ent

the following ratios are particularly interesting to short-term creditors?

rrect option:

Ratios

m Solvency Ratios

ility Ratios

alue Ratios

the following equation is known as Cash Flow (CF) identity?

rrect option:

Assets = CF to Creditors – CF to Stockholder

Assets = CF to Stockholders – CF to Creditors

Stockholders = CF to Creditors + CF from Assets

Assets = CF to Creditors + CF to Stockholder

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

rrect option:

greater than Zero

equal to Zero

less than Zero

given options

the following is (are) a non-cash item(s) ?

rrect option:

tion

given options

the following is NOT a shortcoming of Payback Rule?

rrect option:

ue of money is ignored

the following type of risk can be eliminated by diversification?  
Correct option:

Systemic Risk

Systemic Risk

From the given options

Unsystematic Risk

*Composed & Solved*

Which of the following measure reveals how much profit a company generates with the money shareholders have invested?

Correct

Return on Assets

Debt to Equity Ratio

# *ACC501 3 Finalterm Papers and Important MCQS Solved...*

Correct option:

Profit Margin

Return on Equity

Which of the following is(are) the basic area(s) of *By* Finance?

Correct option:

Financial institutions

Finance?

International finance

Correct

**FINALTERM  
EXAMINATION**

**All of the given options**

Which of the following is the return that firm's creditors demand

Correct

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

**Paper 1**

on new borrowings ?

Correct option:

Cost of debt

Preferred

Common

Retained

The accounting definition of income is:

stock

equity

earnings

Income = Current Assets - Current Liabilities

also known as:

Systemic Risk is

Correct option:

Market Risk

Asset-specific Risk

Income = Fixed Assets - Current Assets

**Market Risk**

**Asset-specific Risk**

Income = Revenues - Current Liabilities

Corporation has

both want to

be director.

How

Income = Revenues - Expenses pg 17

two shareholders; Mr. Aamir with 50 shares and Mr. Imran

be elected as one of the four directors but Mr. Imran doesn't v

How much votes would Mr. Aamir be able to cast as per cumu

Select correct option:

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

70

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?

280

Rs. 245,000

Rs. 200,000

Rs. 155,000

Rs. 45,000

200000-  
45000=155000

## *Composed & Solved*

o Proceeds from sale of equipment Rs. 25,000

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

Rs. 3,000 net cash inflow

Rs. 3,000 net cash outflow

Rs. 8,000 net cash inflow

Rs. 8,000 net cash inflow

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

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

Rs. 45,000

Rs. 15,000

( Rs . 4 5 , 0 0 0 )

( Rs. 15,000)

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

Which of the following would not improve the current ratio?

Borrow short-term to finance additional fixed assets

**Issue long-term debt to buy inventory**

## *Composed & Solved*

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

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

I, II, and III only

I, III, and IV only

**II, III and IV only pg 45**

I, II, III, 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?

## *Composed & Solved*

Perpetuity

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

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

Mortgage

**Debenture**

Collateral

Note Payable

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

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

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

Nominal return

Real return

Inflation return

None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

## *Composed & Solved*

High; lower

High; higher

None of the given options

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

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

Which of the following is the extra yield that investors 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

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

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

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

Primary Market

Secondary Market pg 100

## *Composed & Solved*

investors

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

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

- (I) Perform a post-audit for completed projects;
- (II) Generate project proposals;
- (III) Estimate appropriate cash flows; (IV)
- Select value-maximizing projects; (V)
- Evaluate projects.

II, V, III, IV, and I

III, II, V, IV, and I

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

II, III, IV, V, and I

[http://wps.pearsoned.co  
.uk/wps/grader](http://wps.pearsoned.co.uk/wps/grader)

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

An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109**

## *Composed & Solved*

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

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

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

A mutually exclusive project

An independent project

A dependent project

A contingent project

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

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

Discounted Cash Flow Criteria pg 118

Accounting Criteria

Payback Criteria

## *Composed & Solved*

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

## *Composed & Solved*

required rate of return on SNT stock?

9.00 percent

9.14 percent

9.33 percent

10.65 percent

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

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

The right to vote for directors

**The right to share proportionately in dividend paid**

The right to vote on stockholder matters of great importance

All of the given options

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

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

Dividend yield

Cumulative dividends

## *Composed & Solved*

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

Preferred share

A debenture

**Common stock**

Cumulative dividend stock

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

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

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

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

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

Size of investments in current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**
- Restrictive policy
- **maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**

## *Composed & Solved*

current assets ?

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

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

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

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

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

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

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

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

Stock Bundle

## *Composed & Solved*

### **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 calls for Rs. 25. As per given information, what will be his total

## *Composed & Solved*

35 %

45 %

**Dividend yield =  $2/20=0.1\%$**

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

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

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

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working 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

Operating cash  
flow – change in  
NWC – Capital  
spending  
 $225000 - (-40000) -$   
 $100000 = 165000$

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

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million.

## *Composed & Solved*

62.50%

70.00%

$$250+150=400$$

$$250/400=0.625$$

0.625\*100=62.5 is equity and

100-62.5=37.5 is debt

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

Suppose a firm 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%

$$R_D \times (1$$

$$- T_c).$$

$$7\% \times (1-$$

$$0.34) = 4$$

$$.62$$

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

Opportunity losses from having inadequate inventory are termed as:

Carrying costs

## *Composed & Solved*

- **Safety reserve costs** – opportunity losses from having inadequate inventory e.g. lost sales and goodwill
- A trade-off
- Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels
  - The goal of inventory management is to minimize the sum of these two costs

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

What 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

69 units

89 units

95 units

$$EOQ = (2T \times F / CC)^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

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

The cost of common equity for a firm is:

The required rate of return on the company's stock

## *Composed & Solved*

### **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**

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

Rs. 20,350

Rs. 30,919

**Rs. 36,919**

Rs. 80,350

$$50350 - 30000 = 20350 \times 34\% = 6919$$

$$30000 + 6919 = 36919$$

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

## *Composed & Solved*

0.0892

0.5319

Cannot be estimated without more information

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

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

Answer

$$R = D_1 / P_0 + g$$

This tells us that the total return, R, has two components

$D_1 / P_0$  is called the **Dividend Yield**. Because this is calculated as the expected cash dividend by the current price, it is conceptually similar to the current yield on a bond

Growth rate, g, is also the rate at which the stock price grows. So it can be interpreted as **capital gains yield**

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

What is the difference between operating cycle and cash cycle?

The operating cycle is the sum of the inventory and receivable periods

$$\text{Operating cycle} = \text{Inventory period} + \text{Receivable period}$$

#### **Cash cycle**

• The time between cash disbursement and cash collection. (We spend cash on day 30, but don't collect until

day 105. so we have to arrange finances \$1,000 for  $105 - 30 = 75$  days)

• So we can describe the cash cycle as:

$$\text{Cash cycle} = \text{Operating cycle} - \text{Accounts payable period}$$

$$75 \text{ days} = 105 \text{ days} - 30 \text{ days}$$

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

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

## *Composed & Solved*

- Cost of capital will reflect
  - Cost of equity capital
  - Cost of debt capital
- Cost of Equity

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

Define the following terms:

#### (i) Dealer

An agent who buys and sells securities from a maintained inventory

It stands ready to buy securities from investors wishing to sell them and sells securities to investors

wishing to buy them

#### (ii) Broker

An agent who arranges security transactions among investors, matching investors wishing to buy securities with investors wishing to sell securities

They do not buy or sell securities for their own accounts. Facilitating trades others is their business

#### (iii) Bid Price

#### (iv) Strike Price

The price that the dealer wishes to pay is the bid price and the price at which the dealer sells the securities is called the strike price.

#### (v) Spread

The difference between the bid and ask price is called the 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% ?

## *Composed & Solved*

Preferred shares = Rs. 2.65 Billion

Common shares = Rs. 9.35 Billion

Total = Rs. 17 Billion

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) need s one of two machines. Machine X costs Rs. 25,000 and has cash flow s of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flow s Rs. 7,000 a year for six years. SMC has 12% cost of capital. Calculate each machine s Payback Period and NPV (N et Present Value) and evaluate the results.

### **Paper 2**

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

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

Surplus Asset

Short-term R atio

Working Capital

Current Ratio

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

A business owned by a single person is known as:

## *Composed & Solved*

Corporation

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

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

Total Assets

Total Liabilities

Total Owners Equity

**None of the given options**

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

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

Liquidity Ratio

**Solvency Ratios**  
**pg 34**

Asset Management Ratios

Market Value Ratios

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

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

Operating efficiency

Asset use efficiency

## *Composed & Solved*

Financial Leverage (as  
measured by equity multiplier)

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

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

Ordinary annuity

Annuity due

Perpetuity

None of the given options

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

periods is called an ordinary

**Annuity**

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

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

Dividends

Retained Earnings

Capital Gain

Interest

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

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

## *Composed & Solved*

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

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

3 percent

6 percent

9 percent

12 percent

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

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

More than

Less than

Equal to

None of the given options

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

When corporations borrow, they generally promise to:

I. Make regular scheduled interest payments

II. Give the right of voting to bondholders

III. Repay the original amount borrowed (principal)

IV. Give an ownership interest in the firm

## *Composed & Solved*

II and IV

I, III, and IV

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

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

Repayment

Seniority

Call provision

Protective covenants

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

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

Rs. 30

Rs. 45

Rs. 60

**Rs. 75**

**$9/0.12=75$**

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

## *Composed & Solved*

Secondary Market

Tertiary Market

None of the given options

### **Question No: 15 ( Marks: 1 ) - Please choose one**

An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Positive; positive

Positive; negative

Negative; negative

Negative; positive

### **Question No: 16 ( Marks: 1 ) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

## *Composed & Solved*

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

### **Question No: 18 ( Marks: 1 ) - Please choose one**

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

### **Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following is NOT a problem while determining incremental cash flows?

Merchandize cost

Sunk cost

Opportunity cost

None of the given options

## *Composed & Solved*

### **Sunk**

Opportunity

Fixed

Variable

### **Question No: 21 ( Marks: 1 ) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of :

**The cost of common equity and the cost of debt  
pg 146**

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

### **Question No: 22 ( Marks: 1 ) - Please choose one**

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative  
pg100

These stocks hold credit ratings quite different from bonds

## *Composed & Solved*

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

**Sunk cost**

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

**Question No: 24 ( Marks: 1 ) - Please choose one**

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

All of the given options

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

## *Composed & Solved*

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets

The firm s cost of debt

The firm s stockholders pg 153

The firm s debt-equity ratio

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

Business Risk found

## *Composed & Solved*

### **Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following type of risk influences a large number of assets ?

Systematic Risk

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

- If we always receive exactly what we expect then the investment will be risk-free.

- Systematic Risk

- A risk that influences a large number of assets. It is also called market risk

### **Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

Strike call in a company pg  
140

### **Question No: 31 ( Marks: 1 ) - Please choose one**

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

## *Composed & Solved*

Coefficient of variation

### **Question No: 32 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

Rs. 250

Rs. 1,000

Rs. 1,350

$$50 \times 20 = 1000$$

$$50 \times 25 = 1250$$

$$1250 - 1000 = 250$$

### **Question No: 33 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

Rs. 200,000

Rs. 215,000

Rs. 230,000

## *Composed & Solved*

class?

3-year

5-year

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

### **Question No: 35 ( Marks: 1 ) - Please choose one**

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

15.00% pg

142

### **Question No: 36 ( Marks: 1 ) - Please choose one**

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other lenders

## *Composed & Solved*

- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
  - Excess capacity

### **Question No: 37 ( Marks: 1 ) - Please choose one**

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

Rs. 1,940

Rs. 2,000

Rs. 2,100

### **Question No: 38 ( Marks: 1 ) - Please choose one**

Shortage or Restocking costs \_\_\_\_\_ with inventory levels

Rise

Decline

Remain unaffected

None of the given options

## *Composed & Solved*

Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

**Speculative Motive** - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

- Reserve borrowing utility and Marketable securities

- **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities associated with a firm's ongoing operations.

**Question No: 40 ( Marks: 1 ) - Please choose one**

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

0.08944

0.09101

0.09487

0.10521

## *Composed & Solved*

40%

67%

### **Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition. pg 149**

Financial leverage may not affect the overall cost of capital.

### **Question No: 43 ( Marks: 3 )**

Define Net Present Value (NPV) and write down the NPV rule to accept a project.

### **Question No: 44 ( Marks: 3 )**

What do you mean by the terms of business risk and financial risk?

### **Question No: 45 ( Marks: 3 )**

Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

## *Composed & Solved*

### **Question No: 47 ( Marks: 5 )**

Describe the relationship between capital structure and weighted average cost of capital (WACC).

### **Question No: 48 ( Marks: 10 )**

The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

#### **Cash flow rs**

<b>Year</b>	<b>Project A</b>	<b>Project B</b>
1	30000	30000
2	30000	30000
3	35000	20000
4	25000	30000
5	25000	250000

Calculate Internal Rate of Return (IRR) for both projects.

On the basis of findings in (i):

- a. Which project should be selected if projects are mutually exclusive?
- b. Which project or projects should be selected if projects are independent

### **Question No: 49 ( Marks: 10 )**

Identify the sources and uses of cash and complete the table by following the example.

Example Increasing current liabilities Increase So ur c

## *Composed & Solved*

6. Increasing equity
7. Decreasing long-term debt
8. Decreasing current assets other than cash
9. Accounts Payable go up by Rs. 1,500
10. Accounts receivable go up by Rs. 2,000

### **Paper 3**

#### **FINAL TERM EXAMINATION**

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#### **Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

Agency Problem

None of the given options

#### **The Agency Problem**

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency costs

#### **Question No: 2 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

Budgeting

Liquidity pg 14

### **Question No: 3 ( Marks: 1 ) - Please choose one**

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

Administrative expenses

### **Question No: 4 ( Marks: 1 ) - Please choose one**

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

### **Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following is CORRECT regarding the present value discount factor?

## *Composed & Solved*

### **Question No: 6 ( Marks: 1 ) - Please choose one**

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

### **Question No: 7 ( Marks: 1 ) - Please choose one**

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

### **Question No: 8 ( Marks: 1 ) - Please choose one**

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which

## *Composed & Solved*

Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

### **Question No: 9 ( Marks: 1 ) - Please choose one**

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

### **Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

**Debt provides the voting rights to the bondholders. pg 78**

Corporations payment of interest on debt is fully tax deductible.

### **Question No: 11 ( Marks: 1 ) - Please choose one**

The relationship between real and nominal returns is described by the:

## *Composed & Solved*

BCG Matrix

**Question No: 12 ( Marks: 1 ) - Please choose one**

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Default risk premium

Taxability premium

Interest rate risk premium

Inflation risk premium

**Question No: 13 ( Marks: 1 ) - Please choose one**

For which type of stocks, the dividends grow at a constant rate?

Zero Growth Stocks pg 91

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options

**Question No: 14 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

Statutory Voting

Cumulative Voting

None of the given options

### **Question No: 15 ( Marks: 1 ) - Please choose one**

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

### **Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

Strike Price pg 100

Complex Price

### **Question No: 17 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

2.6 Years

3.1 Years

3.6 Years

4.1 Years

### **Question No: 18 ( Marks: 1 ) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

### **Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

## *Composed & Solved*

Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

**Question No: 21 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

Sunk

Opportunity

Fixed

Variable

**Question No: 22 ( Marks: 1 ) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of :

## *Composed & Solved*

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 23 ( Marks: 1 ) - Please choose one**

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

**By 10 percent each year**

At a constant rate

By a decreasing amount

At a decreasing rate

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding Average Accounting Return?

**AAR is a rate that makes the NPV equal to zero**

AAR is a measure of accounting profit relative to book value

**An investment is acceptable if its AAR is greater than a benchmark AAR**

None of the given options  
wrong questions

## *Composed & Solved*

1<sup>st</sup> proposition

2<sup>nd</sup> proposition

3<sup>rd</sup> proposition

None of the given options

### **Question No: 26 ( Marks: 1 ) - Please choose one**

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

18.33%

20.98%

$$25\%/75\%=0.33$$

$$16\%+(16\%-9\%)x0.33$$

$$0.16+(0.16-0.09)x0.33$$

$$0.16+0.0231=18.31\%$$

### **Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following activities decreases cash ?

## *Composed & Solved*

Increasing equity

Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
  - Increasing fixed assets

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

Operating Cycle

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
  - Converted to cash when we collect from the sale

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

Accounts receivable period pg 164

### *Composed & Solved*

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

#### **Question No: 31 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

#### **Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following statement(s) is (are) true regarding Return on Investment?

## *Composed & Solved*

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

### **Question No: 33 ( Marks: 1 ) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

### **Question No: 34 ( Marks: 1 ) - Please choose one**

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

**Rs. 330,000**

Rs. 470,000

### **Question No: 35 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

RS 230000

Rs. 370,000  
correct

Rs. 470,000  
300000-  
70000=230000

### **Question No: 36 ( Marks: 1 ) - Please choose one**

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34% ?

Rs. 19,040

Rs. 36,960

Rs. 56,000

Rs. 800,000

$800000 * 7\% = 56000$

$56000 * 34\% = 19040$

### **Question No: 37 ( Marks: 1 ) - Please choose one**

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

Precautionary motive

## *Composed & Solved*

### **Question No: 38 ( Marks: 1 ) - Please choose one**

Suppose market value exceeds book value by Rs. 225,000. What will be the after-tax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

Rs. 148,500

Rs. 191,000

Rs. 225,000

$$225000 * 34\% = 76500$$

$$225000 - 76500 = 148500$$

### **Question No: 39**

#### **( Marks: 1 ) - Please choose one**

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15  
%

25  
%

35

## *Composed & Solved*

### **Question No: 40 ( Marks: 1 ) - Please choose one**

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase pric e now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

Rs. 112,500

Rs. 337,500

Rs. 230,000

### **Question No: 41 ( Marks: 1 ) - Please choose one**

Sta ndard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investme nt B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

### **Question No: 42 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

**Financial leverage must affect the overall cost of capital in any condition.**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 ( Marks: 3 )**

What is the difference between dealer and broker ?

**Question No: 44 ( Marks: 3 )**

What does Static Theory of Capital Structure state?

**Question No: 45 ( Marks: 3 )**

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

**Question No: 46 ( Marks: 5 )**

What is the difference between Leverage and Un-levering?

**Question No: 47 ( Marks: 5 )**

Match the capital budgeting techniques as given in Column A to the criteria in Column B. Provide the correct answer in Column C.

**Column A   Column B   Column C**

Net Present Value   Discounted Cash Flow   Criteria

## *Composed & Solved*

### **Question No: 48 ( Marks: 10 )**

Each of the following mutually exclusive investment projects involves an initial outlay of Rs. 240,000. The company's required rate of return is 11 percent. The estimated net cash flows for the projects are as follows:

#### **Cash flow rs**

<b>Year</b>	<b>Project A</b>	<b>Project B</b>
1	140000	20000
2	80000	40000
3	60000	60000
4	20000	100000
5	20000	180000

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

### **Question No: 49 ( Marks: 10 )**

Consider the following chronological events:

#### **Day Activity Cash effect**

0 Acquire inventory on credit None

35 Pay for inventory Rs 5000

70 Sell inventory on credit None

110 Collect on sale +Rs 6000

From the given information, find out:

- (i) inventory period
- (ii) Accounts receivable period
- (iii) Accounts payable period
- (iv) Operating cycle

## *Composed & Solved*

The next dividend for a company is Rs. 6 per share. The stock current price is Rs. 57 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5% ?

Select correct option:

12.88%

13.07%

14.22%

**15.53%**

$$D1 = D0 \times (1 + g)$$

$$RE = D1 / P0 + g$$

$$6 \times (1 + 0.05) = 6.3$$

$$6.3 / 57 + 0.05 = 16\%$$

Which of the following is the time period between the acquisition of inventory and the collection of cash from receivables

**Select correct option**

Operating Cycle pg 164

Cash Cycle

Current Cycle

None of the given options

Question # 2 of 15 ( Start time: 04:07:41 PM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ?

Select correct option:

Operating Cycle

Cash Cycle

Current Cycle

**None of the given options**

## *Composed & Solved*

None of the given options

Question # 8 of 15 ( Start time: 04:11:30 PM ) Total Marks: 1

What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs ?

Select correct option:

Value of the firm increases and WACC decreases

Value of the firm decreases and WACC increases

**Value of the firm and WACC both are not affected pg 158**

Capital structure have to do nothing with value of the firm and WACC

Question # 13 of 15 ( Start time: 04:14:19 PM ) Total Marks: 1

Sources of cash always involve \_\_\_\_\_ a liability (or equity) account or \_\_\_\_\_ an asset account.

Select correct option:

**increasing; decreasing pg 163**

decreasing; increasing

increasing; increasing

decreasing; decreasing

Question # 14 of 15 ( Start time: 03:41:38 PM ) Total Marks: 1

Which of the following refers to the use of borrowed money to increase the return on equity of an investment purchase ?

Select correct option:

**Financial Leverage**

Operating Leverage

Structural Leverage

None of the given options

Question # 1 of 15 ( Start time: 02:20:49 PM ) Total Marks: 1

The value of the firm's cash flows (or the value of the firm) is \_\_\_\_\_ when the WACC is \_\_\_\_\_ .

Select correct option:

minimized; minimized

maximized; maximized

## *Composed & Solved*

Select correct option:

20%

**33%**

40%

67%

Ref:

$$4+2=6$$

$$4/6=0.66$$

$0.66*100=66.67$  is equity and

$100-67=33$  is debt

Question # 7 of 15 ( Start time: 02:24:51 PM ) Total Marks: 1

Which of the following risk is associated with the unique circumstances of a particular company ?

Select correct option:

Financial Risk

**Business Risk**

Functional Risk

None of the given options

Question # 10 of 15 ( Start time: 02:27:15 PM ) Total Marks: 1

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

Select correct option:

The required return of firm's assets

The firm's cost of debt

**The firm's stockholders pg 153**

The firm's debt-equity ratio

Question # 13 of 15 ( Start time: 02:29:40 PM ) Total Marks: 1

Which of the following is the difference between the current assets and the current liabilities ?

Select correct option:

Net difference

**Net working capital**

Current ratio

## *Composed & Solved*

Inventory period – accounts receivable period

**Inventory period + accounts receivable period pg 164**

Inventory period + account payable period

Question # 2 of 15 ( Start time: 02:39:24 PM ) Total Marks: 1

A firm's capital structure may include which of the following ?

Select correct option:

Common stocks

**Preferred Stocks not sure**

Bonds

All of the given options

Question # 14 of 15 ( Start time: 02:46:33 PM ) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock sells for Rs. 28. As per given information, what will be the capital gains yield ?

Select correct option:

15.85%

25.10%

**27.27%**

45.00%

Capital gain yield formula

$(28-22)/22$

$=0.2727$

Question # 15 of 15 ( Start time: 02:48:05 PM ) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ?

Select correct option:

Leverage

Levering

**Un-levering pg 152**

Loaning

Question # 1 of 15 ( Start time: 11:23:11 AM ) Total Marks: 1

Which of the following activities does not increase cash ?

Select correct option:

## *Composed & Solved*

The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

Financial Risk pg 155

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 ( Start time: 11:27:05 AM ) Total Marks: 1

What will happen to cash cycle if payable period is lengthened ?

Select correct option:

Cash cycle increases

**Cash cycle decreases 167**

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 ( Start time: 11:28:03 AM ) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

**1st proposition pg 153**

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 ( Start time: 11:29:12 AM ) Total Marks: 1

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 equity ?

Select correct option:

33.33%

50.00%

**62.50%**

85.00%

## *Composed & Solved*

Select correct option:

Probability distribution

**The expected return**

The standard deviation

Coefficient of variation

Question # 10 of 15 ( Start time: 11:32:28 AM ) Total Marks: 1

Cash cycle = \_\_\_\_\_

Select correct option:

Inventory period – accounts receivable period

Inventory period + accounts receivable period

Inventory period + account payable period

**Operating cycle – accounts payable period pg 165**

Question # 12 of 15 ( Start time: 11:33:22 AM ) Total Marks: 1

According to which of the following theory, the firm's capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Select correct option:

M&M Proposition

Modern theory of bankruptcy costs

**Static theory of capital structure not sure**

Dividend growth theory

Question # 13 of 15 ( Start time: 11:34:55 AM ) Total Marks: 1

The cost of common equity for a firm is:

Select correct option:

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 # 14 of 15 ( Start time: 11:36:17 AM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 25% and 12% respectively.

This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

## *Composed & Solved*

Cash Cycle

Current Cycle

**None of the given options pg 165**

Question # 4 of 15 ( Start time: 11:47:38 AM ) Total Marks: 1

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

**WACC (Weighted Average Cost of Capital) 146**

AAR (Average Accounting Return)

Question # 5 of 15 ( Start time: 11:49:02 AM ) Total Marks: 1

What will happen to cash cycle if inventory and receivable periods get longer ?

Select correct option:

**Cash cycle increases pg 167**

Cash cycle decreases

Cash cycle remain unaffected

Cash cycle has to do nothing with inventory and receivable periods

**Standard deviations for Investment A and Investment B are 15% and 32% respectively. This indicates that :**

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 9 of 15 ( Start time: 11:52:21 AM ) Total Marks: 1

Which of the following term refers to the use of personal borrowing to alter the degree of financial leverage ?

Select correct option:

Un-levering

**Homemade leverage pg 151**

## *Composed & Solved*

Cost of preferred stock  
Cost of common equity  
Cost of retained earnings

Question # 13 of 15 ( Start time: 11:55:21 AM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is equity ?

Select correct option:

- 20%
- 33%
- 40%
- 67%**

$$4+2=6$$

$$4/6=0.67$$

Question # 14 of 15 ( Start time: 11:56:50 AM ) Total Marks: 1

Under what situation, we can safely say that one capital structure is better than the other ?

Select correct option:

If it results in a higher weighted average cost of capital

**If it results in a lower weighted average cost of capital pg 149**

If it results in a lower value of the firm

Capital structure has to do nothing with weighted average cost of capital

**Finished last quiz of acc 501  
Good bye all V U students**

**Badal pe chalta hu mai  
Ghirta sambhalta hu mai  
Khuwshin krta hu mai  
Khony se darta hu mai**

**Jaga na soya hu mai  
Musafir khoya hu mai**

## *Composed & Solved*

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Starting lec 1 to 35 Date :19-jan-2011

ACC 501 Quiz Conference lecture 1 to 35

Question # 5 of 15 ( Start time: 10:55:09 PM )

Total Marks: 1

Suppose market value exceeds book value by Rs. 200,000. What will be the after-tax proceeds if

there is a tax rate of 35 percent ?

Select correct option:

Rs. 97,500

Rs. 105,600

**Rs. 130,000**

Rs. 150,000

$$200000 * 35\% = 70000$$

$$200000 - 70000 = 130000$$

Question # 9 of 15 ( Start time: 02:23:24 PM ) Total Marks: 1

In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

Independent

Correlated

Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

Select correct option:

10.63%

20.20%

35.12%

41.30%

First find dividend yield then capital gain yield then plus both answer

## *Composed & Solved*

The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

Rs. 15,000

Rs. 15,220

Rs. 20,327

**Rs. 25,425**

Which one of the following statement is INCORRECT regarding MACRS depreciation ?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

**Annual depreciation remains constant every year even by using different rates.**

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

Total portfolio risk is equal to :

Select correct option:

systematic risk plus non-diversifiable risk

unsystematic risk plus diversifiable risk

systematic risk plus market risk

systematic risk plus diversifiable risk

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share. Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

**11.36%**

21.12%

## *Composed & Solved*

Which of the following type of risk can be eliminated by diversification ?

Select correct option:

Systematic Risk

Market Risk

**Unsystematic Risk**

None of the given options

Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt**

Cost of preferred stock

Cost of common equity

Cost of retained earnings

None of the given options

What will be the risk premium for a stock that has an expected return rate of 14% and a risk-free rate of 5% ?

Select correct option:

6 %

9 %

15 %

24%

**14-5=9**

Which of the following is NOT an example of systematic risk ?

Select correct option:

Interest Rate

Inflation

**Strike call in a company**

Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your :

Select correct option:

Risk on investment

**Return on investment**

Gain on investment

Loss on investment

## *Composed & Solved*

Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

Question # 3 of 15 ( Start time: 05:24:09 PM ) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70

120

200

280

**$4 \times 50 = 200$**

Question # 4 of 15 ( Start time: 05:25:30 PM ) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ?

Select correct option:

Equipment used in research

Autos & computers

Most industrial equipment

All of the given options

Question # 5 of 15 ( Start time: 05:26:42 PM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question # 6 of 15 ( Start time: 05:27:45 PM ) Total Marks: 1

Systematic Risk is also known as :

## *Composed & Solved*

A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

$$600000 * 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 ( Start time: 05:29:04 PM ) Total Marks: 1

Unsystematic Risk is also known as :

Select correct option:

**Diversifiable Risk**

Market Risk

Non-diversifiable Risk

Question # 9 of 15 ( Start time: 05:29:57 PM ) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

Internal Rate of Return

Question # 10 of 15 ( Start time: 05:30:21 PM ) Total Marks: 1

Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 ( Start time: 05:30:58 PM ) Total Marks: 1

## *Composed & Solved*

None of the given options

Question # 12 of 15 ( Start time: 05:31:49 PM ) Total Marks: 1

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 14 of 15 ( Start time: 05:32:39 PM ) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of 0.0075 ?

Select correct option:

0.08660

0.09101

0.09487

0.10521

Question # 15 of 15 ( Start time: 05:33:12 PM ) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

Inflation risk premium

Default risk premium

Taxability premium

Question # 1 of 15 ( Start time: 03:08:45 PM ) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

## *Composed & Solved*

Capital Asset Pricing Model

**Fisher's Effect**

BCG Matrix

Question # 5 of 15 ( Start time: 03:12:03 PM ) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand?

Select correct option:

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

Question # 6 of 15 ( Start time: 03:13:39 PM ) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%?

Select correct option:

6.02%

**7.55%**

10.0%

14.3%

**$(1+r)/(1+h)$**

**$1.14/1.06=1.07$**

**$1.07*100=107.55$**

**$107.55-100=7.55$**

Question # 10 of 15 ( Start time: 03:16:02 PM ) Total Marks: 1

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. 100 million. What percent of the firm's financing is debt ?

Select correct option:

**28.57%**

50.00%

62.50%

70.00%

**$250/350*100-100=28.57$**

Question # 13 of 15 ( Start time: 03:18:22 PM ) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a

## *Composed & Solved*

Question # 14 of 15 ( Start time: 03:19:51 PM ) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Select correct option:

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 ( Start time: 03:21:16 PM ) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

**independent project**

dependent project

contingent project

Question # 1 of 15 ( Start time: 02:04:33 PM ) Total Marks: 1

Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

Question # 2 of 15 ( Start time: 02:05:04 PM ) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs. 500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ?

Select correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

Rs. 545,000

## *Composed & Solved*

$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 ( Start time: 02:07:26 PM ) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ?

Select correct option:

Prefer red stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity

Cost of preferred stock can be estimated by using firm's bond ratings

Cost of preferred stock can be estimated by observing the required r eturn on other similarly rated shares of preferred stock

Question # 5 of 15 ( Start time: 02:09:00 PM ) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

Question # 6 of 15 ( Start time: 02:09:28 PM ) Total Marks: 1

\_\_\_\_\_ paid by corporation is tax deductible but \_\_\_\_\_ paid are not tax deductible.

Select correct option:

Interest; dividend

Dividend; interest

Bonus; interest

None of the given options

Question # 8 of 15 ( Start time: 02:10:43 PM ) Total Marks: 1

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

Sunk

Opportunity

Fixed

Variable

## *Composed & Solved*

3.7 Years

4.1 Years

Question # 12 of 15 ( Start time: 02:12:30 PM ) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return?

Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR

An investment is acceptable if its AAR is less than a benchmark AAR

None of the given options

Question # 13 of 15 ( Start time: 02:14:04 PM ) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

**Rs. 8.93**

$$5/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 ( Start time: 02:15:46 PM ) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_ .

Select correct option:

Positive; positive

Positive; negative

Negative; negative

Negative; positive

**Ending lec 1 to 35**

**19-Jan-02**

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## *Composed & Solved*

Maintaining firm's working capital at or above some specified minimum level  
Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition  
Restricting selling or leasing assets wrong question option d is negative and all is positive example  
Wrong, wrong, wrong question it is unfair discipline

2. **AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?**

Select correct option:

0.101

0.220

0.667

**0.818**

**Reference:  $(1-0.45=0.55)$**

**$=0.45/0.55=0.818$**

3. **What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?**

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

**Reference:  $8000*12/100=8960$**

4. **What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?**

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

**Reference:  $D*1+g/r-g$**

**$4.75*(1+0.5/4.75-0.5)=71.25$**

5. **A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**

## *Composed & Solved*

**APR=9**

**M=30**

**$(1+9/30)^{30}-1=9.38$**

- 6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

**Reference:  $100*4=400$**

- 7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

**Reference:  $6/0.15=40$**

- 8. Which of the following process can be defined as the process of generating earnings from previous earnings?**

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

- 9. Which of the following is the amount of cash we would get if we actually sell an asset?**

Select correct option:

## *Composed & Solved*

11. **Which of the following financial statement shows both dollars and percentages in the report?**

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. **in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. **Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. **Which of the following is NOT a shortcoming of Payback Rule?**

Select correct option:

Time value of money is ignored

It fails to consider risk differences

## *Composed & Solved*

### **Debt securities or bonds pg 71**

Common Stocks

Prefer red Stock

All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

### **Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. **When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.**

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

18. **Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body.

A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. **Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

## *Composed & Solved*

20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. **Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. **If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

## *Composed & Solved*

24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

**Reference=600000\*1.12=672000-600000=72000**

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

## *Composed & Solved*

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

## *Composed & Solved*

33. **A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

**Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?**

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

## *Composed & Solved*

### **Net Present Value**

Internal Rate of Return

Profitability Index

**39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

**41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

**42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates**

## *Composed & Solved*

- 44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

- 45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

- 46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

## *Composed & Solved*

Interest rate risk

47. **Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

48. **In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. **A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. **Which of the following is a characteristic of preferred stock?**

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

## *Composed & Solved*

Floating-rate bonds

Euro bonds

- 52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

- 53. Which of the following comes under the head of accounting criteria for capital budgeting decision?**

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

- 54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

- 55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

## *Composed & Solved*

NPV is less than Zero  
All of the given options

57. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?**

Select correct option:

Fluctuations Risk  
**Interest Rate Risk pg75**  
Real-Time Risk  
Inflation Risk

58. **All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity  
Coupon rate  
Yield to maturity  
**All of the given options**

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**Date :25-11-2010**

**ACC 501 Quiz Conference lecture 1 to 18**  
**This Mcqs for Midterm**

59. **Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets

## *Composed & Solved*

Direct labor  
Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin  
Total Assets Turnover  
**Debt-equity ratio**  
None of the given options

**63. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow  
Capital spending  
Change in net working capital  
**All of the given options**

**64. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**  
Investing Cash Flows  
Financing Cash Flows  
All of the given options

**65. Finance is vital for which of the following business activity (activities)?**

## *Composed & Solved*

66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

**Primary market**

Secondary market

Tertiary market

## *Composed & Solved*

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

74. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

## *Composed & Solved*

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

## *Composed & Solved*

### **Purchase of Fixed Assets**

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

### **Operating efficiency**

- Asset use efficiency
- Financial policy
- Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

### **Financial Analysts**

- Auditors
- Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios

### **Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital**

## *Composed & Solved*

**84. which of the following is not a form of business organization**

Select correct option:

- sole proprietorship
- partnership
- joint stock company
- cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

- Liquidity Ratios
- Long-term Solvency Ratios**
- Asset Management Ratios
- Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

- Income = Current Assets – Current Liabilities
- Income = Fixed Assets – Current Assets
- Income = Revenues – Current Liabilities
- Income = Revenues – Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

- Depreciation
- Interest
- Expenses related to firm's financing of its assets

## *Composed & Solved*

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long -term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Prefer red Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Mar keters

## *Composed & Solved*

### **Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

### **Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

### **Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

### **Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

## *Composed & Solved*

97. **According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

98. **Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

99. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

**100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

101. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

## *Composed & Solved*

102. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Mar kup

Mar kdown

106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

## *Composed & Solved*

107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

## *Composed & Solved*

- Common Stocks
- Preferred Stock
- All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

- Inventory
- Supplies
- Machinery
- Depreciation**

**114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

- Rs. 300,000
- Rs. 500,000
- Rs. 800,000**
- Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

- Sole-proprietorship
- General Partnership
- Limited Partnership
- Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

## *Composed & Solved*

**117. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

**118. The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

**119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

**120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

**121. The principal amount of a bond at issue is called:**

## *Composed & Solved*

122. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds .**

None of the given options

123. **Which of the following is the acronym for GAAP?**

Select correct option:

Gener ally Applied Accountability Principles

Gener al Accounting Assessment Principles

**Generally Accepted Accounting Principles**

Gener al Accepted Assessment Principles

124. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

### **Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

## *Composed & Solved*

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

128. **Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs.1,000 because you receive it sooner

Rs. 1,050 because it is more money

## *Composed & Solved*

### **Financial Leverage**

Manufacturing Leverage  
None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$$6000(1+5\%)^{10.51}=\text{around } 10,000$$

132. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**133. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

## *Composed & Solved*

135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$$4100-3000=1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

## *Composed & Solved*

Comparison

Evaluation

140. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following** range of discount rates?

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

142. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

143. **Which of the following is a series of constant cash flows that occur at the end of each** period for some fixed number of periods?

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

## *Composed & Solved*

International finance

**Investments**

All of the given options

145. **7:03 AM** Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

**Profit margin=net income/ sales\*100**

**Profit margin=6000/100000\*100= 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

## *Composed & Solved*

### Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make

## *Composed & Solved*

II and IV

I, III, and IV

154. **Which of the following is NOT included in a bond indenture?**

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. **Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. **The preferred stock of a company currently sells for Rs. 25 per share.**

**The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

## *Composed & Solved*

159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

160. **Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital ( WACC)

161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

*Composed & Solved*

***ACC501 3 Finalterm Papers and Important MCQS***

162. ***Solved*** If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option: ***By***

Increase

**Decrease**

Remain unaffected

Become zero

**FINALTERM  
EXAMINATION  
Paper 1**

**Question No: 1 ( Marks: 1 ) - Please choose one**

163. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

The accounting definition of income is:

**Increase**  
Income = Current Assets - Current Liabilities  
Decrease

~~Remain unaffected~~  
Income = Fixed Assets - Current Assets  
Become zero

Income = Revenues - Current Liabilities

Income = Revenues - Expenses pg 17

**Question No: 2 ( Marks: 1 ) - Please choose one**

What would be the capital spending for an organization who has purchased fixed assets of Rs. 200,000 and sold fixed assets of Rs. 45,000?

Rs. 245,000

Rs. 200,000

R s. 1 55 , 0 00

Rs. 45,000

**200000-  
45000=155000**

## *Composed & Solved*

o Proceeds from sale of equipment Rs. 25,000

On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

Rs. 3,000 net cash inflow

Rs. 3,000 net cash outflow

Rs. 8,000 net cash inflow

Rs. 8,000 net cash inflow

### **Question No: 4 ( Marks: 1 ) - Please choose one**

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the company?

Rs. 45,000

Rs. 15,000

( Rs . 4 5 , 0 0 0 )

( Rs. 15,000)

### **Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following would not improve the current ratio?

Borrow short-term to finance additional fixed assets

**Issue long-term debt to buy inventory**

## *Composed & Solved*

Which of the following are incorporated into the calculation of the Du -Pont Identity?

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

I, II, and III only

I, III, and IV only

**II, III and IV only pg 45**

I, II, III, 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?

## *Composed & Solved*

Perpetuity

**Question No: 9 ( Marks: 1 ) - Please choose one**

Which of the following is an unsecured bond for which no specific pledge of property is made?

Mortgage

**Debenture**

Collateral

Note Payable

Debenture is an unsecured bond for which no specific pledge of property is made

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following type of return refers to the percentage change in the amount of money you have?

Nominal return

Real return

Inflation return

None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

## *Composed & Solved*

High; lower

High; higher

None of the given options

When real rate is high, all interest rates will tend to be higher and vice versa.

### **Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is the extra yield that investors 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

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as **taxability premium**

### **Question No: 13 ( Marks: 1 ) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

Primary Market

Secondary Market pg 100

## *Composed & Solved*

investors

### **Question No: 14 ( Marks: 1 ) - Please choose one**

Place the following items in the proper order of completion regarding the capital budgeting process.

- (I) Perform a post-audit for completed projects;
- (II) Generate project proposals;
- (III) Estimate appropriate cash flows; (IV)
- Select value-maximizing projects; (V)
- Evaluate projects.

II, V, III, IV, and I

III, II, V, IV, and I

**II, III, V, IV, and I**

II, III, IV, V, and I

<http://wps.pearsoned.co.uk/wps/grader>

### **Question No: 15 ( Marks: 1 ) - Please choose one**

An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109**

## *Composed & Solved*

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

### **Question No: 17 ( Marks: 1 ) - Please choose one**

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

A mutually exclusive project

An independent project

A dependent project

A contingent project

### **Question No: 18 ( Marks: 1 ) - Please choose one**

Finding Net Present Value comes under which type of capital budgeting criteria ?

Discounted Cash Flow Criteria pg 118

Accounting Criteria

Payback Criteria

## *Composed & Solved*

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

## *Composed & Solved*

required rate of return on SNT stock?

9.00 percent

9.14 percent

9.33 percent

10.65 percent

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

The right to vote for directors

**The right to share proportionately in dividend paid**

The right to vote on stockholder matters of great importance

All of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which one of the following typically applies to preferred stock but not to common stock?

Dividend yield

Cumulative dividends

## *Composed & Solved*

You must own which of the following to vote against a merger proposal from another corporation?

Preferred share

A debenture

**Common stock**

Cumulative dividend stock

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

To maintain less short-term debt and more long-term debt

To maintain more short-term debt and less long- term debt

Size of investments in current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**
- Restrictive policy
- **maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**

## *Composed & Solved*

current assets ?

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

To maintain less short-term debt and more long-term debt

To maintain more short-term debt and less long- term debt

### **Question No: 28 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

### **Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Stock Bundle

## *Composed & Solved*

### **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 calls for Rs. 25. As per given information, what will be his total

## *Composed & Solved*

35 %

45 %

**Dividend yield =  $2/20=0.1\%$**

**Capital gain yield =  $(25-20)/20=0.25\%$**

**Total percentage return  $0.1+0.25*100=35\%$**

### **Question No: 34 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working 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

Operating cash  
flow – change in  
NWC – Capital  
spending  
 $225000 - (-40000) -$   
 $100000 = 165000$

### **Question No: 35 ( Marks: 1 ) - Please choose one**

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million.

## *Composed & Solved*

62.50%

70.00%

$$250+150=400$$

$$250/400=0.625$$

0.625\*100=62.5 is equity and

100-62.5=37.5 is debt

### **Question No: 36 ( Marks: 1 ) - Please choose one**

Suppose a firm 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%

$$R_D \times (1$$

$$- T_c).$$

$$7\% \times (1-$$

$$0.34) = 4$$

$$.62$$

### **Question No: 37 ( Marks: 1 ) - Please choose one**

Opportunity losses from having inadequate inventory are termed as:

Carrying costs

## *Composed & Solved*

- **Safety reserve costs** – opportunity losses from having inadequate inventory e.g. lost sales and goodwill
- A trade-off
- Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels
  - The goal of inventory management is to minimize the sum of these two costs

### **Question No: 38 ( Marks: 1 ) - Please choose one**

What 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

69 units

89 units

95 units

$$EOQ = (2T \times F / CC)^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

### **Question No: 39 ( Marks: 1 ) - Please choose one**

The cost of common equity for a firm is:

The required rate of return on the company's stock

## *Composed & Solved*

### **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**

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

Rs. 20,350

Rs. 30,919

**Rs. 36,919**

Rs. 80,350

$$50350 - 30000 = 20350 \times 34\% = 6919$$

$$30000 + 6919 = 36919$$

### **Question No: 42 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

0.0892

0.5319

Cannot be estimated without more information

### **Question No: 43 ( Marks: 3 )**

Write down the components of total return in terms of dividend growth model.

Answer

$$R = D_1 / P_0 + g$$

This tells us that the total return, R, has two components

$D_1 / P_0$  is called the **Dividend Yield**. Because this is calculated as the expected cash dividend by the current price, it is conceptually similar to the current yield on a bond

Growth rate, g, is also the rate at which the stock price grows. So it can be interpreted as **capital gains yield**

### **Question No: 44 ( Marks: 3 )**

What is the difference between operating cycle and cash cycle?

The operating cycle is the sum of the inventory and receivable periods

$$\text{Operating cycle} = \text{Inventory period} + \text{Receivable period}$$

#### **Cash cycle**

• The time between cash disbursement and cash collection. (We spend cash on day 30, but don't collect until

day 105. so we have to arrange finances \$1,000 for  $105 - 30 = 75$  days)

• So we can describe the cash cycle as:

$$\text{Cash cycle} = \text{Operating cycle} - \text{Accounts payable period}$$

$$75 \text{ days} = 105 \text{ days} - 30 \text{ days}$$

### **Question No: 45 ( Marks: 3 )**

How a firm's overall cost of capital is calculated?

## *Composed & Solved*

- Cost of capital will reflect
  - Cost of equity capital
  - Cost of debt capital
- Cost of Equity

### **Question No: 46 ( Marks: 5 )**

Define the following terms:

#### (i) Dealer

An agent who buys and sells securities from a maintained inventory

It stands ready to buy securities from investors wishing to sell them and sells securities to investors

wishing to buy them

#### (ii) Broker

An agent who arranges security transactions among investors, matching investors wishing to buy securities with investors wishing to sell securities

They do not buy or sell securities for their own accounts. Facilitating trades others is their business

#### (iii) Bid Price

#### (iv) Strike Price

The price that the dealer wishes to pay is the bid price and the price at which the dealer sells the securities is called the strike price.

#### (v) Spread

The difference between the bid and ask price is called the 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% ?

## *Composed & Solved*

Preferred shares = Rs. 2.65 Billion

Common shares = Rs. 9.35 Billion

Total = Rs. 17 Billion

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) need s one of two machines. Machine X costs Rs. 25,000 and has cash flow s of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flow s Rs. 7,000 a year for six years. SMC has 12% cost of capital. Calculate each machine s Payback Period and NPV (N et Present Value) and evaluate the results.

### **Paper 2**

#### **Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following is the difference between current assets and current? Liabilities?

Surplus Asset

Short-term R atio

Working Capital

Current Ratio

#### **Question No: 2 ( Marks: 1 ) - Please choose one**

A business owned by a single person is known as:

## *Composed & Solved*

Corporation

**Question No: 3 ( Marks: 1 ) - Please choose one**

In a common-size balance sheet, all items are shown as a percentage of:

Total Assets

Total Liabilities

Total Owners Equity

**None of the given options**

**Question No: 4 ( Marks: 1 ) - Please choose one**

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

Liquidity Ratio

**Solvency Ratios**  
**pg 34**

Asset Management Ratios

Market Value Ratios

**Question No: 5 ( Marks: 1 ) - Please choose one**

According to Du Pont Identity, ROE is affected by which of the following?

Operating efficiency

Asset use efficiency

## *Composed & Solved*

Financial Leverage (as  
measured by equity multiplier)

### **Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Ordinary annuity

Annuity due

Perpetuity

None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of

periods is called an ordinary

**Annuity**

### **Question No: 7 ( Marks: 1 ) - Please choose one**

A portion of profits, which a company distributes among its shareholders, is known as:

Dividends

Retained Earnings

Capital Gain

Interest

### **Question No: 8 ( Marks: 1 ) - Please choose one**

What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 3,000?

## *Composed & Solved*

### **Question No: 9 ( Marks: 1 ) - Please choose one**

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

3 percent

6 percent

9 percent

12 percent

### **Question No: 10 ( Marks: 1 ) - Please choose one**

Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

More than

Less than

Equal to

None of the given options

### **Question No: 11 ( Marks: 1 ) - Please choose one**

When corporations borrow, they generally promise to:

I. Make regular scheduled interest payments

II. Give the right of voting to bondholders

III. Repay the original amount borrowed (principal)

IV. Give an ownership interest in the firm

## *Composed & Solved*

II and IV

I, III, and IV

### **Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

Repayment

Seniority

Call provision

Protective covenants

### **Question No: 13 ( Marks: 1 ) - Please choose one**

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

Rs. 30

Rs. 45

Rs. 60

**Rs. 75**

**$9/0.12=75$**

### **Question No: 14 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

Secondary Market

Tertiary Market

None of the given options

### **Question No: 15 ( Marks: 1 ) - Please choose one**

An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Positive; positive

Positive; negative

Negative; negative

Negative; positive

### **Question No: 16 ( Marks: 1 ) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

## *Composed & Solved*

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

### **Question No: 18 ( Marks: 1 ) - Please choose one**

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

### **Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following is NOT a problem while determining incremental cash flows?

Merchandize cost

Sunk cost

Opportunity cost

None of the given options

## *Composed & Solved*

### **Sunk**

Opportunity

Fixed

Variable

### **Question No: 21 ( Marks: 1 ) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of :

**The cost of common equity and the cost of debt  
pg 146**

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

### **Question No: 22 ( Marks: 1 ) - Please choose one**

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

Dividends on these stocks can be cumulative  
pg100

These stocks hold credit ratings quite different from bonds

## *Composed & Solved*

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

**Sunk cost**

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

**Question No: 24 ( Marks: 1 ) - Please choose one**

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

All of the given options

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

## *Composed & Solved*

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets

The firm s cost of debt

The firm s stockholders pg 153

The firm s debt-equity ratio

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

Business Risk found

## *Composed & Solved*

### **Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following type of risk influences a large number of assets ?

Systematic Risk

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

- If we always receive exactly what we expect then the investment will be risk-free.

- Systematic Risk

- A risk that influences a large number of assets. It is also called market risk

### **Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

Strike call in a company

pg  
140

### **Question No: 31 ( Marks: 1 ) - Please choose one**

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

## *Composed & Solved*

Coefficient of variation

### **Question No: 32 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

Rs. 250

Rs. 1,000

Rs. 1,350

$$50 \times 20 = 1000$$

$$50 \times 25 = 1250$$

$$1250 - 1000 = 250$$

### **Question No: 33 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

Rs. 200,000

Rs. 215,000

Rs. 230,000

## *Composed & Solved*

class?

3-year

5-year

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

### **Question No: 35 ( Marks: 1 ) - Please choose one**

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

15.00% pg  
142

### **Question No: 36 ( Marks: 1 ) - Please choose one**

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other lenders

## *Composed & Solved*

- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
  - Excess capacity

### **Question No: 37 ( Marks: 1 ) - Please choose one**

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

Rs. 1,940

Rs. 2,000

Rs. 2,100

### **Question No: 38 ( Marks: 1 ) - Please choose one**

Shortage or Restocking costs \_\_\_\_\_ with inventory levels

Rise

Decline

Remain unaffected

None of the given options

## *Composed & Solved*

Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

**Speculative Motive** - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

- Reserve borrowing utility and Marketable securities

- **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities associated with a firm's ongoing operations.

**Question No: 40 ( Marks: 1 ) - Please choose one**

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

0.08944

0.09101

0.09487

0.10521

## *Composed & Solved*

40%

67%

### **Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition. pg 149**

Financial leverage may not affect the overall cost of capital.

### **Question No: 43 ( Marks: 3 )**

Define Net Present Value (NPV) and write down the NPV rule to accept a project.

### **Question No: 44 ( Marks: 3 )**

What do you mean by the terms of business risk and financial risk?

### **Question No: 45 ( Marks: 3 )**

Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

## *Composed & Solved*

### **Question No: 47 ( Marks: 5 )**

Describe the relationship between capital structure and weighted average cost of capital (WACC).

### **Question No: 48 ( Marks: 10 )**

The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

#### **Cash flow rs**

<b>Year</b>	<b>Project A</b>	<b>Project B</b>
1	30000	30000
2	30000	30000
3	35000	20000
4	25000	30000
5	25000	250000

Calculate Internal Rate of Return (IRR) for both projects.

On the basis of findings in (i):

- a. Which project should be selected if projects are mutually exclusive?
- b. Which project or projects should be selected if projects are independent

### **Question No: 49 ( Marks: 10 )**

Identify the sources and uses of cash and complete the table by following the example.

Example Increasing current liabilities Increase So ur c

## *Composed & Solved*

6. Increasing equity
7. Decreasing long-term debt
8. Decreasing current assets other than cash
9. Accounts Payable go up by Rs. 1,500
10. Accounts receivable go up by Rs. 2,000

### **Paper 3**

#### **FINAL TERM EXAMINATION**

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#### **Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

Agency Problem

None of the given options

#### **The Agency Problem**

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency

costs

#### **Question No: 2 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

Budgeting

Liquidity pg 14

### **Question No: 3 ( Marks: 1 ) - Please choose one**

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

Administrative expenses

### **Question No: 4 ( Marks: 1 ) - Please choose one**

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

### **Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following is CORRECT regarding the present value discount factor?

## *Composed & Solved*

### **Question No: 6 ( Marks: 1 ) - Please choose one**

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

### **Question No: 7 ( Marks: 1 ) - Please choose one**

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

### **Question No: 8 ( Marks: 1 ) - Please choose one**

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which

## *Composed & Solved*

Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

### **Question No: 9 ( Marks: 1 ) - Please choose one**

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

### **Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

**Debt provides the voting rights to the bondholders. pg 78**

Corporations payment of interest on debt is fully tax deductible.

### **Question No: 11 ( Marks: 1 ) - Please choose one**

The relationship between real and nominal returns is described by the:

## *Composed & Solved*

BCG Matrix

**Question No: 12 ( Marks: 1 ) - Please choose one**

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Default risk premium

Taxability premium

Interest rate risk premium

Inflation risk premium

**Question No: 13 ( Marks: 1 ) - Please choose one**

For which type of stocks, the dividends grow at a constant rate?

Zero Growth Stocks pg 91

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options

**Question No: 14 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

Statutory Voting

Cumulative Voting

None of the given options

### **Question No: 15 ( Marks: 1 ) - Please choose one**

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

### **Question No: 16 ( Marks: 1 ) - Please choose one**

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

Strike Price pg 100

Complex Price

### **Question No: 17 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

2.6 Years

3.1 Years

3.6 Years

4.1 Years

### **Question No: 18 ( Marks: 1 ) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

3.2 Years

3.5 Years

4.0 Years

Cannot be determined from the given information

### **Question No: 19 ( Marks: 1 ) - Please choose one**

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

## *Composed & Solved*

Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

**Question No: 21 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

Sunk

Opportunity

Fixed

Variable

**Question No: 22 ( Marks: 1 ) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of :

## *Composed & Solved*

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 23 ( Marks: 1 ) - Please choose one**

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

**By 10 percent each year**

At a constant rate

By a decreasing amount

At a decreasing rate

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding Average Accounting Return?

**AAR is a rate that makes the NPV equal to zero**

AAR is a measure of accounting profit relative to book value

**An investment is acceptable if its AAR is greater than a benchmark AAR**

None of the given options  
wrong questions

## *Composed & Solved*

1<sup>st</sup> proposition

2<sup>nd</sup> proposition

3<sup>rd</sup> proposition

None of the given options

### **Question No: 26 ( Marks: 1 ) - Please choose one**

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

18.33%

20.98%

$$25\%/75\%=0.33$$

$$16\%+(16\%-9\%)x0.33$$

$$0.16+(0.16-0.09)x0.33$$

$$0.16+0.0231=18.31\%$$

### **Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following activities decreases cash ?

## *Composed & Solved*

Increasing equity

Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
  - Increasing fixed assets

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

Operating Cycle

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
  - Converted to cash when we collect from the sale

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

Accounts receivable period pg 164

### *Composed & Solved*

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

Rs. 2,000

+ Rs. 4,000

#### **Question No: 31 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

#### **Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following statement(s) is (are) true regarding Return on Investment?

## *Composed & Solved*

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

### **Question No: 33 ( Marks: 1 ) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

### **Question No: 34 ( Marks: 1 ) - Please choose one**

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

**Rs. 330,000**

Rs. 470,000

### **Question No: 35 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

RS 230000

Rs. 370,000  
correct

Rs. 470,000  
300000-  
70000=230000

### **Question No: 36 ( Marks: 1 ) - Please choose one**

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34% ?

Rs. 19,040

Rs. 36,960

Rs. 56,000

Rs. 800,000

$800000 * 7\% = 56000$

$56000 * 34\% = 19040$

### **Question No: 37 ( Marks: 1 ) - Please choose one**

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

Precautionary motive

## *Composed & Solved*

### **Question No: 38 ( Marks: 1 ) - Please choose one**

Suppose market value exceeds book value by Rs. 225,000. What will be the after-tax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

Rs. 148,500

Rs. 191,000

Rs. 225,000

$$225000 * 34\% = 76500$$

$$225000 - 76500 = 148500$$

### **Question No: 39**

#### **( Marks: 1 ) - Please choose one**

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15  
%

25  
%

35

## *Composed & Solved*

### **Question No: 40 ( Marks: 1 ) - Please choose one**

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase pric e now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

Rs. 112,500

Rs. 337,500

Rs. 230,000

### **Question No: 41 ( Marks: 1 ) - Please choose one**

Sta ndard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investme nt B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

### **Question No: 42 ( Marks: 1 ) - Please choose one**

## *Composed & Solved*

**Financial leverage must affect the overall cost of capital in any condition.**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 ( Marks: 3 )**

What is the difference between dealer and broker ?

**Question No: 44 ( Marks: 3 )**

What does Static Theory of Capital Structure state?

**Question No: 45 ( Marks: 3 )**

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

**Question No: 46 ( Marks: 5 )**

What is the difference between Leverage and Un-levering?

**Question No: 47 ( Marks: 5 )**

Match the capital budgeting techniques as given in Column A to the criteria in Column B. Provide the correct answer in Column C.

**Column A   Column B   Column C**

Net Present Value   Discounted Cash Flow   Criteria

## *Composed & Solved*

### **Question No: 48 ( Marks: 10 )**

Each of the following mutually exclusive investment projects involves an initial outlay of Rs. 240,000. The company's required rate of return is 11 percent. The estimated net cash flows for the projects are as follows:

#### **Cash flow rs**

<b>Year</b>	<b>Project A</b>	<b>Project B</b>
1	140000	20000
2	80000	40000
3	60000	60000
4	20000	100000
5	20000	180000

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

### **Question No: 49 ( Marks: 10 )**

Consider the following chronological events:

#### **Day Activity Cash effect**

0 Acquire inventory on credit None

35 Pay for inventory Rs 5000

70 Sell inventory on credit None

110 Collect on sale +Rs 6000

From the given information, find out:

- (i) inventory period
- (ii) Accounts receivable period
- (iii) Accounts payable period
- (iv) Operating cycle

## *Composed & Solved*

The next dividend for a company is Rs. 6 per share. The stock current price is Rs. 57 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5% ?

Select correct option:

12.88%

13.07%

14.22%

**15.53%**

$$D1 = D0 \times (1 + g)$$

$$RE = D1 / P0 + g$$

$$6 \times (1 + 0.05) = 6.3$$

$$6.3 / 57 + 0.05 = 16.$$

Which of the following is the time period between the acquisition of inventory and the collection of cash from receivables

**Select correct option**

Operating Cycle pg 164

Cash Cycle

Current Cycle

None of the given options

Question # 2 of 15 ( Start time: 04:07:41 PM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ?

Select correct option:

Operating Cycle

Cash Cycle

Current Cycle

**None of the given options**

## *Composed & Solved*

None of the given options

Question # 8 of 15 ( Start time: 04:11:30 PM ) Total Marks: 1

What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs ?

Select correct option:

Value of the firm increases and WACC decreases

Value of the firm decreases and WACC increases

**Value of the firm and WACC both are not affected pg 158**

Capital structure have to do nothing with value of the firm and WACC

Question # 13 of 15 ( Start time: 04:14:19 PM ) Total Marks: 1

Sources of cash always involve \_\_\_\_\_ a liability (or equity) account or \_\_\_\_\_ an asset account.

Select correct option:

**increasing; decreasing pg 163**

decreasing; increasing

increasing; increasing

decreasing; decreasing

Question # 14 of 15 ( Start time: 03:41:38 PM ) Total Marks: 1

Which of the following refers to the use of borrowed money to increase the return on equity of an investment purchase ?

Select correct option:

**Financial Leverage**

Operating Leverage

Structural Leverage

None of the given options

Question # 1 of 15 ( Start time: 02:20:49 PM ) Total Marks: 1

The value of the firm's cash flows (or the value of the firm) is \_\_\_\_\_ when the WACC is \_\_\_\_\_ .

Select correct option:

minimized; minimized

maximized; maximized

## *Composed & Solved*

Select correct option:

20%

**33%**

40%

67%

Ref:

$$4+2=6$$

$$4/6=0.66$$

$0.66*100=66.67$  is equity and

$100-67=33$  is debt

Question # 7 of 15 ( Start time: 02:24:51 PM ) Total Marks: 1

Which of the following risk is associated with the unique circumstances of a particular company ?

Select correct option:

Financial Risk

**Business Risk**

Functional Risk

None of the given options

Question # 10 of 15 ( Start time: 02:27:15 PM ) Total Marks: 1

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

Select correct option:

The required return of firm's assets

The firm's cost of debt

**The firm's stockholders pg 153**

The firm's debt-equity ratio

Question # 13 of 15 ( Start time: 02:29:40 PM ) Total Marks: 1

Which of the following is the difference between the current assets and the current liabilities ?

Select correct option:

Net difference

**Net working capital**

Current ratio

## *Composed & Solved*

Inventory period – accounts receivable period

**Inventory period + accounts receivable period pg 164**

Inventory period + account payable period

Question # 2 of 15 ( Start time: 02:39:24 PM ) Total Marks: 1

A firm's capital structure may include which of the following ?

Select correct option:

Common stocks

**Preferred Stocks not sure**

Bonds

All of the given options

Question # 14 of 15 ( Start time: 02:46:33 PM ) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock sells for Rs. 28. As per given information, what will be the capital gains yield ?

Select correct option:

15.85%

25.10%

**27.27%**

45.00%

Capital gain yield formula

$(28-22)/22$

$=0.2727$

Question # 15 of 15 ( Start time: 02:48:05 PM ) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ?

Select correct option:

Leverage

Levering

**Un-levering pg 152**

Loaning

Question # 1 of 15 ( Start time: 11:23:11 AM ) Total Marks: 1

Which of the following activities does not increase cash ?

Select correct option:

## *Composed & Solved*

The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

Financial Risk pg 155

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 ( Start time: 11:27:05 AM ) Total Marks: 1

What will happen to cash cycle if payable period is lengthened ?

Select correct option:

Cash cycle increases

**Cash cycle decreases 167**

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 ( Start time: 11:28:03 AM ) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

**1st proposition pg 153**

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 ( Start time: 11:29:12 AM ) Total Marks: 1

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 equity ?

Select correct option:

33.33%

50.00%

**62.50%**

85.00%

## *Composed & Solved*

Select correct option:

Probability distribution

**The expected return**

The standard deviation

Coefficient of variation

Question # 10 of 15 ( Start time: 11:32:28 AM ) Total Marks: 1

Cash cycle = \_\_\_\_\_

Select correct option:

Inventory period – accounts receivable period

Inventory period + accounts receivable period

Inventory period + account payable period

**Operating cycle – accounts payable period pg 165**

Question # 12 of 15 ( Start time: 11:33:22 AM ) Total Marks: 1

According to which of the following theory, the firm's capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Select correct option:

M&M Proposition

Modern theory of bankruptcy costs

**Static theory of capital structure not sure**

Dividend growth theory

Question # 13 of 15 ( Start time: 11:34:55 AM ) Total Marks: 1

The cost of common equity for a firm is:

Select correct option:

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 # 14 of 15 ( Start time: 11:36:17 AM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 25% and 12% respectively.

This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

## *Composed & Solved*

Cash Cycle

Current Cycle

**None of the given options pg 165**

Question # 4 of 15 ( Start time: 11:47:38 AM ) Total Marks: 1

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

**WACC (Weighted Average Cost of Capital) 146**

AAR (Average Accounting Return)

Question # 5 of 15 ( Start time: 11:49:02 AM ) Total Marks: 1

What will happen to cash cycle if inventory and receivable periods get longer ?

Select correct option:

**Cash cycle increases pg 167**

Cash cycle decreases

Cash cycle remain unaffected

Cash cycle has to do nothing with inventory and receivable periods

**Standard deviations for Investment A and Investment B are 15% and 32% respectively. This indicates that :**

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 9 of 15 ( Start time: 11:52:21 AM ) Total Marks: 1

Which of the following term refers to the use of personal borrowing to alter the degree of financial leverage ?

Select correct option:

Un-levering

**Homemade leverage pg 151**

## *Composed & Solved*

Cost of preferred stock  
Cost of common equity  
Cost of retained earnings

Question # 13 of 15 ( Start time: 11:55:21 AM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is equity ?

Select correct option:

20%

33%

40%

**67%**

$$4+2=6$$

$$4/6=0.67$$

Question # 14 of 15 ( Start time: 11:56:50 AM ) Total Marks: 1

Under what situation, we can safely say that one capital structure is better than the other ?

Select correct option:

If it results in a higher weighted average cost of capital

**If it results in a lower weighted average cost of capital pg 149**

If it results in a lower value of the firm

Capital structure has to do nothing with weighted average cost of capital

**Finished last quiz of acc 501**

**Good bye all V U students**

**Badal pe chalta hu mai  
Ghirta sambhalta hu mai  
Khuwshien krta hu mai  
Khony se darta hu mai**

**Jaga na soya hu mai  
Musafir khoya hu mai**

## *Composed & Solved*

**Armaan.makhani@gmail.com**

**Starting lec 1 to 35 Date :19-jan-2011**

**ACC 501 Quiz Conference lecture 1 to 35**

**Question # 5 of 15 ( Start time: 10:55:09 PM )**

**Total Marks: 1**

**Suppose market value exceeds book value by Rs. 200,000. What will be the after-tax proceeds if**

**there is a tax rate of 35 percent ?**

**Select correct option:**

Rs. 97,500

Rs. 105,600

**Rs. 130,000**

Rs. 150,000

$$200000 * 35\% = 70000$$

$$200000 - 70000 = 130000$$

**Question # 9 of 15 ( Start time: 02:23:24 PM ) Total Marks: 1**

**In which type of projects, the unequal lives of the projects do affect the analysis ?**

**Select correct option:**

Mutually exclusive

Dependent

Independent

Correlated

Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

**Select correct option:**

10.63%

20.20%

35.12%

41.30%

First find dividend yield then capital gain yield then plus both answer

## *Composed & Solved*

The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

Rs. 15,000

Rs. 15,220

Rs. 20,327

**Rs. 25,425**

Which one of the following statement is INCORRECT regarding MACRS depreciation ?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

**Annual depreciation remains constant every year even by using different rates.**

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

Total portfolio risk is equal to :

Select correct option:

systematic risk plus non-diversifiable risk

unsystematic risk plus diversifiable risk

systematic risk plus market risk

systematic risk plus diversifiable risk

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

**11.36%**

21.12%

## *Composed & Solved*

Which of the following type of risk can be eliminated by diversification ?

Select correct option:

Systematic Risk

Market Risk

**Unsystematic Risk**

None of the given options

Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt**

Cost of preferred stock

Cost of common equity

Cost of retained earnings

None of the given options

What will be the risk premium for a stock that has an expected return rate of 14% and a risk-free rate of 5% ?

Select correct option:

6 %

9 %

15 %

24%

**14-5=9**

Which of the following is NOT an example of systematic risk ?

Select correct option:

Interest Rate

Inflation

**Strike call in a company**

Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your :

Select correct option:

Risk on investment

**Return on investment**

Gain on investment

Loss on investment

## *Composed & Solved*

Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

Question # 3 of 15 ( Start time: 05:24:09 PM ) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70

120

200

280

**$4 \times 50 = 200$**

Question # 4 of 15 ( Start time: 05:25:30 PM ) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ?

Select correct option:

Equipment used in research

Autos & computers

Most industrial equipment

All of the given options

Question # 5 of 15 ( Start time: 05:26:42 PM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

Investment B is more volatile than Investment A

Question # 6 of 15 ( Start time: 05:27:45 PM ) Total Marks: 1

Systematic Risk is also known as :

## *Composed & Solved*

A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

$$600000 * 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 ( Start time: 05:29:04 PM ) Total Marks: 1

Unsystematic Risk is also known as :

Select correct option:

**Diversifiable Risk**

Market Risk

Non-diversifiable Risk

Question # 9 of 15 ( Start time: 05:29:57 PM ) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

Internal Rate of Return

Question # 10 of 15 ( Start time: 05:30:21 PM ) Total Marks: 1

Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 ( Start time: 05:30:58 PM ) Total Marks: 1

## *Composed & Solved*

None of the given options

Question # 12 of 15 ( Start time: 05:31:49 PM ) Total Marks: 1

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 14 of 15 ( Start time: 05:32:39 PM ) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of 0.0075 ?

Select correct option:

0.08660

0.09101

0.09487

0.10521

Question # 15 of 15 ( Start time: 05:33:12 PM ) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

Inflation risk premium

Default risk premium

Taxability premium

Question # 1 of 15 ( Start time: 03:08:45 PM ) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

## *Composed & Solved*

Capital Asset Pricing Model

**Fisher's Effect**

BCG Matrix

Question # 5 of 15 ( Start time: 03:12:03 PM ) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand?

Select correct option:

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

Question # 6 of 15 ( Start time: 03:13:39 PM ) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%?

Select correct option:

6.02%

**7.55%**

10.0%

14.3%

**$(1+r)/(1+h)$**

**$1.14/1.06=1.07$**

**$1.07*100=107.55$**

**$107.55-100=7.55$**

Question # 10 of 15 ( Start time: 03:16:02 PM ) Total Marks: 1

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. 100 million. What percent of the firm's financing is debt ?

Select correct option:

**28.57%**

50.00%

62.50%

70.00%

**$250/350*100-100=28.57$**

Question # 13 of 15 ( Start time: 03:18:22 PM ) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a

## *Composed & Solved*

Question # 14 of 15 ( Start time: 03:19:51 PM ) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Select correct option:

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 ( Start time: 03:21:16 PM ) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

**independent project**

dependent project

contingent project

Question # 1 of 15 ( Start time: 02:04:33 PM ) Total Marks: 1

Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

Question # 2 of 15 ( Start time: 02:05:04 PM ) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs. 500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ?

Select correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

Rs. 545,000

## *Composed & Solved*

$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 ( Start time: 02:07:26 PM ) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ?

Select correct option:

Prefer red stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity

Cost of preferred stock can be estimated by using firm's bond ratings

Cost of preferred stock can be estimated by observing the required r eturn on other similarly rated shares of preferred stock

Question # 5 of 15 ( Start time: 02:09:00 PM ) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

Question # 6 of 15 ( Start time: 02:09:28 PM ) Total Marks: 1

\_\_\_\_\_ paid by corporation is tax deductible but \_\_\_\_\_ paid are not tax deductible.

Select correct option:

Interest; dividend

Dividend; interest

Bonus; interest

None of the given options

Question # 8 of 15 ( Start time: 02:10:43 PM ) Total Marks: 1

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

Sunk

Opportunity

Fixed

Variable

## *Composed & Solved*

3.7 Years

4.1 Years

Question # 12 of 15 ( Start time: 02:12:30 PM ) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return?

Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR

An investment is acceptable if its AAR is less than a benchmark AAR

None of the given options

Question # 13 of 15 ( Start time: 02:14:04 PM ) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

**Rs. 8.93**

$$5/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 ( Start time: 02:15:46 PM ) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_ .

Select correct option:

Positive; positive

Positive; negative

Negative; negative

Negative; positive

**Ending lec 1 to 35**

**19-Jan-02**

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## *Composed & Solved*

Maintaining firm's working capital at or above some specified minimum level  
Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition  
Restricting selling or leasing assets wrong question option d is negative and all is positive example  
Wrong, wrong, wrong question it is unfair discipline

2. **AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?**

Select correct option:

0.101

0.220

0.667

**0.818**

**Reference:  $(1-0.45=0.55)$**

**$=0.45/0.55=0.818$**

3. **What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?**

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

**Reference:  $8000*12/100=8960$**

4. **What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?**

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

**Reference:  $D*1+g/r-g$**

**$4.75*(1+0.5/4.75-0.5)=71.25$**

5. **A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**

## *Composed & Solved*

**APR=9**

**M=30**

**$(1+9/30)^{30}-1=9.38$**

- 6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

**Reference:  $100*4=400$**

- 7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

**Reference:  $6/0.15=40$**

- 8. Which of the following process can be defined as the process of generating earnings from previous earnings?**

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

- 9. Which of the following is the amount of cash we would get if we actually sell an asset?**

Select correct option:

## *Composed & Solved*

11. **Which of the following financial statement shows both dollars and percentages in the report?**

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. **in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. **Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. **Which of the following is NOT a shortcoming of Payback Rule?**

Select correct option:

Time value of money is ignored

It fails to consider risk differences

## *Composed & Solved*

### **Debt securities or bonds pg 71**

Common Stocks

Prefer red Stock

All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

### **Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. **When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.**

Select correct option:

Low; higher

High; lower

### **High; higher pg 88**

None of the given options

18. **Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body.

A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

### **All of the given options**

19. **Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

## *Composed & Solved*

20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. **Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. **If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

## *Composed & Solved*

24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

**Reference=600000\*1.12=672000-600000=72000**

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

## *Composed & Solved*

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

## *Composed & Solved*

33. **A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

**Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?**

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

## *Composed & Solved*

### **Net Present Value**

Internal Rate of Return

Profitability Index

- 39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

- 40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

- 41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

- 42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

- 43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates**

## *Composed & Solved*

**44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

**45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

## *Composed & Solved*

Interest rate risk

47. **Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

48. **In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. **A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. **Which of the following is a characteristic of preferred stock?**

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

## *Composed & Solved*

Floating-rate bonds

Euro bonds

- 52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

- 53. Which of the following comes under the head of accounting criteria for capital budgeting decision?**

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

- 54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

- 55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

## *Composed & Solved*

NPV is less than Zero  
All of the given options

57. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?**

Select correct option:

Fluctuations Risk  
**Interest Rate Risk pg75**  
Real-Time Risk  
Inflation Risk

58. **All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity  
Coupon rate  
Yield to maturity  
**All of the given options**

**Made By**  
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**Date :25-11-2010**

**ACC 501 Quiz Conference lecture 1 to 18**  
**This Mcqs for Midterm**

59. **Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets

## *Composed & Solved*

Direct labor  
Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin  
Total Assets Turnover  
**Debt-equity ratio**  
None of the given options

**63. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow  
Capital spending  
Change in net working capital  
**All of the given options**

**64. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**  
Investing Cash Flows  
Financing Cash Flows  
All of the given options

**65. Finance is vital for which of the following business activity (activities)?**

## *Composed & Solved*

66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

**Primary market**

Secondary market

Tertiary market

## *Composed & Solved*

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

74. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

## *Composed & Solved*

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

## *Composed & Solved*

### **Purchase of Fixed Assets**

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

### **Operating efficiency**

- Asset use efficiency
- Financial policy
- Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

### **Financial Analysts**

- Auditors
- Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios

### **Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital**

## *Composed & Solved*

**84. which of the following is not a form of business organization**

Select correct option:

- sole proprietorship
- partnership
- joint stock company
- cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

- Liquidity Ratios
- Long-term Solvency Ratios**
- Asset Management Ratios
- Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

- Income = Current Assets – Current Liabilities
- Income = Fixed Assets – Current Assets
- Income = Revenues – Current Liabilities
- Income = Revenues – Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

- Depreciation
- Interest
- Expenses related to firm's financing of its assets

## *Composed & Solved*

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long -term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Prefer red Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Mar keters

## *Composed & Solved*

### **Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

### **Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

### **Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

### **Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

## *Composed & Solved*

97. **According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

98. **Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

99. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

**100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

101. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

## *Composed & Solved*

102. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Mar kup

Mar kdown

106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

## *Composed & Solved*

107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

## *Composed & Solved*

- Common Stocks
- Preferred Stock
- All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

- Inventory
- Supplies
- Machinery
- Depreciation**

**114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

- Rs. 300,000
- Rs. 500,000
- Rs. 800,000**
- Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

- Sole-proprietorship
- General Partnership
- Limited Partnership
- Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

## *Composed & Solved*

**117. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

**118. The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

**119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

**120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

**121. The principal amount of a bond at issue is called:**

## *Composed & Solved*

122. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds .**

None of the given options

123. **Which of the following is the acronym for GAAP?**

Select correct option:

Gener ally Applied Accountability Principles

Gener al Accounting Assessment Principles

**Generally Accepted Accounting Principles**

Gener al Accepted Assessment Principles

124. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

### **Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

## *Composed & Solved*

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

128. **Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs.1,000 because you receive it sooner

Rs. 1,050 because it is more money

## Composed & Solved

### Financial Leverage

Manufacturing Leverage  
None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

132. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

## *Composed & Solved*

135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$$4100 - 3000 = 1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

## *Composed & Solved*

Comparison

Evaluation

140. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following** range of discount rates?

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

142. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

143. **Which of the following is a series of constant cash flows that occur at the end of each** period for some fixed number of periods?

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

## *Composed & Solved*

International finance

**Investments**

All of the given options

145. **7:03 AM** Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

**Profit margin=net income/ sales\*100**

**Profit margin=6000/100000\*100= 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

## *Composed & Solved*

### Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make

## *Composed & Solved*

II and IV

I, III, and IV

154. **Which of the following is NOT included in a bond indenture?**

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. **Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. **The preferred stock of a company currently sells for Rs. 25 per share.**

**The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

## *Composed & Solved*

159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

160. **Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital ( WACC)

161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

## ACC 501 mcqs

1. Which of the following is the process of planning and managing a firm's long-term investments?  
Select correct option:

Capital Rationing  
Working Capital Management

*Composed & Solved*

Capital Structuring  
Capital Budgeting

2. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows  
Financing Cash Flows

All of the given options

162. If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option:

3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Increase  
Decrease

Float  
Limit

Remain unaffected

Become zero

Collar  
Surplus

4. Which of the following is the acronym for GAAP?

Select correct option:

163. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

General Accounting

Generally Accepted

General Accepted

Increase  
Decrease

Remain unaffected

Become zero

Assessment Principles

Accounting Principles

Assessment Principles

Generally Applied Accountability Principles

5. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?  
Select correct option:

To maintain a high ratio of current assets to sales

To maintain a low ratio of current assets to sales

To less short-term debt and more long-term debt

To more short-term debt and less long-term debt

6. Quick Ratio is also known as:  
Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

7. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

8. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

9. Which of the following terms refers to the costs to store and finance the assets?

Select correct option:

Carrying costs

Shortage costs

Storing costs

financing costs

10. Which one of the following statement is INCORRECT regarding MACRS depreciation?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes.

11.

Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

Annual depreciation remains constant every year even by using different rates.

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

12. Which of the following statement is CORRECT regarding compound interest?

Select correct option:

It is the most basic form of calculating interest.

It earns profit not only on principal but also on interest.

It is calculated by multiplying principal by rate multiplied by time.

It does not take into account the accumulated interest for calculation.

13. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

14. Time value of money is an important finance concept because:

Select correct option:

It takes risk into account

It takes time into account

It takes compound interest into account

All of the given options

15. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

16. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

**Liquidity Ratios**

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

17. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

18. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

**All of the given options**

19. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

20. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

**Simple and easy to calculate**

None of the given options

21. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

**Rs. 1,050 because it is more money**

**Either because both options are of equal value**

**22. What is the effective annual rate of 7 percent compounded monthly?**

**Select correct option:**

**7.00 percent**

**7.12 percent**

**7.19 percent**

**7.23 percent**

**23. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

**Select correct option:**

**Sole-proprietorship**

**General Partnership**

**Limited Partnership**

**Corporation**

**24. Business risk depends on which of the following risk of the firm's assets ?**

**Select correct option:**

**Systematic Risk**

**Diversifiable Risk**

**Unsystematic Risk**

**None of the given options**

**25. Which of the following type of risk can be eliminated by diversification?**

**Select correct option:**

**Systematic Risk**

**Market Risk**

**Unsystematic Risk**

**None of the given options**

**26. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?**

**Select correct option:**

**Profit Margin**

**Return on Assets**

**Return on Equity**

**Debt-Equity Ratio**

**27. Which of the following is(are) the basic area(s) of Finance?**

**Select correct option:**

**Financial institutions**

**International finance**

**Investments**

**All of the given options**

**28. Which of the following is the return that firm's creditors demand on new borrowings ?**

**Select correct option:**

Cost of debt  
Cost of preferred stock  
**Cost of common equity**  
Cost of retained earnings

29. Systematic Risk is also known as:  
Select correct option:

Diversifiable Risk  
**Market Risk**  
Residual Risk  
Asset-specific Risk

30. ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?  
Select correct option:

70  
120  
200  
280

31.

### ACC 501 Mcqs for Final Term

1. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?

Select correct option:

0.101

0.220

0.667

**0.818**

Reference:(1-0.45=0.55)

=0.45/0.55=0.818

3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

Reference: 8000\*12/100=8960

4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

Reference:  $D \cdot (1 + g/r - g)$

$4.75 \cdot (1 + 0.5/4.75 - 0.5) = 71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

Reference:  $(1 + APR/m)^m - 1$

APR=9

M=30

$(1 + 9/30)^{30} - 1 = 9.38$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

Reference:  $100 \cdot 4 = 400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year.

If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

Reference:  $6/0.15 = 40$

8. Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell an asset?

Select correct option:

**Market Value**

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and percentages in the report?

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

15. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

16. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

20. As the dividend is always same for a zero growth stock, so the stock can also be viewed as:

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

**22. Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

**23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$D_2 = D_1 \times (1 + g)$

$D_2 = D_0 \times (1 + g)^2$

$D_2 = D_0 \times (1 + g)^2$

**All of the given options pg 92**

**24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):**

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

**25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?**

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

**Reference=600000\*1.12=672000-600000=72000**

**26. Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

**27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.**

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

**28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.**

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

Select correct option:

Primary Market

**Secondary Market pg 100**

Tertiary Market

None of the given options

**33. A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

**34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

**35. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

**Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?**

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

**37. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

**38. Which of the following is the most common capital budgeting technique?**

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

**39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

41. Which one of the following typically applies to preferred stock but not to common stock?

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

42. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates \_\_\_\_\_ than short term rates reflected by an upward term structure.

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$60+60=120/1000=12\%$

45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

46. Which of the following is NOT an important feature of treasury notes and bonds?

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

48. In which type of the market, securities are originally sold to the investors?

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds

Euro bonds

52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

**56. One would be indifferent between taking and not taking the investment when:**

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero** pg 104 doubt ask question in mdb

NPV is less than Zero

All of the given options

**57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?**

Select correct option:

Fluctuations Risk

**Interest Rate Risk** pg75

Real-Time Risk

Inflation Risk

**58. All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

**All of the given options**

**59. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**60. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

**63. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

**64. Which of the following refers to the cash flows that result from the firm’s day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**65. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

**73 days**

$750000/150000=5$

$365/5=73\text{days}$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

71. shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

72. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

73. me: Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

74. of the following statement measures performance over a specific period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

**75. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

**84. which of the following is not a form of business organization**

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities

Income = Fixed Assets - Current Assets

Income = Revenues - Current Liabilities

**Income = Revenues - Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 * 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

**Payback Period** lec 28

Net Present Value

Average Accounting Return

None of the given options

95. Period costs include which of the following?

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

96. The value of net working capital will be greater than zero when:

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

98. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution= 700000/460000=1.52**

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

Limited Partnership

Corporation

102. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Markup

Markdown

106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

107. \_\_\_\_\_ **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. **Which of the following is a cash flow from financing activity?**

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. **Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

113. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

**Corporation**

116. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

122. Which of the following statement about bond ratings is TRUE?

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

123. Which of the following is the acronym for GAAP?

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

124. Which of the following is NOT an internal use of financial statements information?

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

$$\text{Net income} - \text{dividend} / \text{net income} * 100$$

$$250000 - 150000 / 250000 * 100 = 40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

None of the given options

126. A portion of profits, which a company distributes among its shareholders, is known as:

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions  
International finance  
Investments

**All of the given options**

**128. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

**129. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

**130. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

**131. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

**132. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**133. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

**134. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

**135. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

- Rs. 500
- Rs. 752
- Rs. 1,052

**Rs. 1,100**

$$4100 - 3000 = 1100$$

137. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

- 7.00 percent**
- 7.12 percent**
- 7.19 percent
- 7.23 percent

138. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?

Select correct option:

- Operating Activities**
- Investing Activities
- Financing Activities
- All of the given options

139. Which of the following term refers to establish of a standard to follow for comparison?

Select correct option:

- Benchmarking 48**
- Standardizing
- Comparison
- Evaluation

140. Which of the following is measured by profit margin?

Select correct option:

- Operating efficiency pg 44**
- Asset use efficiency
- Financial policy
- Dividend policy

141. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

- 2% to 8%
- 4% to 25%
- 5% to 20%**
- 10% to 50%

142. Which of the following refers to a conflict of interest between principal and agent?

Select correct option:

- Management Conflict
- Interest Conflict
- Agency Problem**
- None of the given options

143. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

- Ordinary annuity 63**
- Annuity due
- Perpetuity
- None of the given options

144. Which of the following area of finance deals with stocks and bonds?

Select correct option:

- Financial institutions
- International finance
- Investments**
- All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the

weights for assets A and B will be \_\_ and \_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make

regular scheduled interest payments II. Give the right of voting to

bondholders III. Repay the original amount borrowed (principal) IV. Give an

**ownership interest in the firm**

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

154. **Which of the following is NOT included in a bond indenture?**

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. **Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. **The preferred stock of a company currently sells for Rs. 25 per share.**

**The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

160. **Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

162. If a firm uses cash to purchase inventory, its quick ratio

will:

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

163. a firm uses cash to purchase inventory, its current ratio

will:

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero

Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

**Bond Price < Par Value and YTM > coupon rate**

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

Currently Mr. Safdar has a saving of Rs. 70,000. On the day of his retirement after 20 years, he wants to have Rs. 1,000,000 available for his retirement needs. What is the rate of return he needs to earn to reach his goal?

Select correct option:

7.89%

**8.49%**

8.78%

9.03%

Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

In which of the following form of business "All Business income is not considered as personal income"?

Select correct option:

**Corporate form**

Partnership

Sole proprietorship

None of the given options

which of the following is not a form of business organization

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

Which of the given is (are) major difference(s) between net income and cash flow of the company?

Select correct option:

Accounts receivable only

Depreciation only

Accounts payable only

**All of the given options**

Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

What will be the annual payment on a 7-year Rs. 18,000 loan that carries a 14% interest rate?

Select correct option:

Rs. 3,612.09

Rs. 3,872.26

**Rs. 4,197.46**

Rs. 4603.97

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

Positive

Negative

zero  
None of the given options

Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

\_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

**Cash Flow Statement**

Owner's Equity Statement

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

**Annuity due**

Perpetuity

None of the given options

Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

## **ACC 501 mcqs**

1. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

2. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

- Operating Cash Flows
- Investing Cash Flows
- Financing Cash Flows
- All of the given options**

3. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

- Float
- Collar**
- Limit
- Surplus

4. Which of the following is the acronym for GAAP?

Select correct option:

- Generally Applied Accountability Principles
- General Accounting Assessment Principles
- Generally Accepted Accounting Principles**
- General Accepted Assessment Principles

5. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?

Select correct option:

- To maintain a high ratio of current assets to sales
- To maintain a low ratio of current assets to sales**
- To less short-term debt and more long-term debt
- To more short-term debt and less long-term debt

6. Quick Ratio is also known as:

Select correct option:

- Current Ratio
- Acid-test Ratio**
- Cash Ratio
- None of the given options

7. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?

Select correct option:

- Sole-proprietorship
- Partnership**
- Corporation
- None of the given options

8. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

- 20%; 80%

37%; 63%  
63%; 37%  
80%; 20%

9. Which of the following terms refers to the costs to store and finance the assets?  
Select correct option:

Carrying costs  
**Shortage costs**  
Storing costs  
financing costs

10. Which one of the following statement is INCORRECT regarding MACRS depreciation?  
Select correct option:

**Every asset is assigned to a particular class which establishes asset's life for tax purposes.**

11. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

Annual depreciation remains constant every year even by using different rates.

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

12. Which of the following statement is CORRECT regarding compound interest?  
Select correct option:

It is the most basic form of calculating interest.  
It earns profit not only on principal but also on interest.  
**It is calculated by multiplying principal by rate multiplied by time.**  
It does not take into account the accumulated interest for calculation.

13. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?  
Select correct option:

**Sole-proprietorship**  
Partnership  
Corporation  
None of the given options

14. Time value of money is an important finance concept because:  
Select correct option:

It takes risk into account  
It takes time into account  
It takes compound interest into account  
**All of the given options**

15. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?  
Select correct option:

5.00 percent  
7.00 percent  
8.45 percent

10.0 percent

16. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

**Liquidity Ratios**

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

17. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

18. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

**All of the given options**

19. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

20. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

**Simple and easy to calculate**

None of the given options

21. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

**Either because both options are of equal value**

22. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

23. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

24. Business risk depends on which of the following risk of the firm's assets ?

Select correct option:

**Systematic Risk**

Diversifiable Risk

Unsystematic Risk

None of the given options

25. Which of the following type of risk can be eliminated by diversification?

Select correct option:

**Systematic Risk**

Market Risk

Unsystematic Risk

None of the given options

26. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?

Select correct option:

Profit Margin

Return on Assets

**Return on Equity**

Debt-Equity Ratio

27. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

28. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

Cost of debt

Cost of preferred stock

**Cost of common equity**

Cost of retained earnings

29. Systematic Risk is also known as:

Select correct option:

**Diversifiable Risk**  
**Market Risk**  
**Residual Risk**  
**Asset-specific Risk**

**30. ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?**

**Select correct option:**

- 70**
- 120**
- 200**
- 280**

**31.**

**Salma:** You've been invited to this chat room!

7:11 PM hi

**me:** asad

good

hello start

**Salma:** ok

mai karti hu

**me:** just hurry you know I have limited time

7:12 PM **Salma:** ok

**me:** ok start

**Salma:** hu 20 marks

**me:** haan

I know

**Salma:** Which of the following financial statement shows both dollars and percentages in the report?

Select correct option:

Balance Sheet

Common-Size Statement

Income Statement

Relative Statement of Equity

7:13 PM 1

**me:** 2

wo sirif percentages show karti hai

**Salma:** sure

ok

7:14 PM **me:** yes

**Salma:** In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would:

Select correct option:

Fall

Rise

Remain same

Cannot be determined with the given information

1

**me:** 1

yes

next

**Salma:** Which of the following statement measures performance over a specific period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

7:15 PM 1

**me:** 1

next

**Salma:** Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

Cash Coverage Ratio

Cash Ratio

**me:** 3

next

**Salma:** Which of the given is (are) major difference(s) between net income and cash flow of the company?

Select correct option:

Accounts receivable only

Depreciation only

Accounts payable only

All of the given options

7:16 PM **me:** 4

**Salma:** An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?  
Select correct option:

- Rs. 500
- Rs. 752
- Rs. 1,052
- Rs. 1,100

7:17 PM **me:** 4

confirm  
**Salma:** 4

**me:** next  
**Salma:** The principal amount of a bond at issue is called:  
Select correct option:

- Par value
- Coupon value
- Present value of an annuity
- Present value of a lump sum

2  
**me:** 1  
confirm  
7:18 PM next

**Salma:** Which of the following refers to a conflict of interest between principal and agent?  
Select correct option:

- Management Conflict
- Interest Conflict
- Agency Problem
- None of the given options

1  
[usman.bashir.dogar@gmail.com](mailto:usman.bashir.dogar@gmail.com) has joined

**me:** 3  
next  
**Salma:** Product costs include which of the following?  
Select correct option:

- Selling expenses
- General expenses
- Manufacturing overhead
- Administrative expenses

7:19 PM 3  
**me:** 3  
confirm  
next  
**Salma:** Financial policy is evaluated by which of the following?  
Select correct option:

- Profit Margin
- Total Assets Turnover
- Debt-equity ratio
- None of the given options

**usman.bashir.dogar:** g

MC100403017 : Usman Bashir Dogar

Quiz Start Time: 07:07 PM Time Left 87  
sec(s)

Question # 13 of 20 ( Start time: 07:17:57 PM ) Total Marks: 1  
A portion of profits, which a company retains itself for further expansion, is known as:  
Select correct option:

- Dividends
- Retained Earnings
- Capital Gain
- None of the given options

**Salma:** mujay an karo aziz  
**me:** 2  
next  
**Salma:** yeh koon haai  
7:20 PM most common application of term "Finance" involves raising money to acquire \_\_\_\_\_.  
Select correct option:

- Land & Building
- Machinery & Equipment
- Inventory
- All of the given options

3  
**me:** pata nahi4  
4  
4  
**usman.bashir.dogar:** MC100403017 : Usman Bashir Dogar

Quiz Start Time: 07:07 PM Time Left 87  
sec(s)

Question # 14 of 20 ( Start time: 07:18:49 PM ) Total Marks: 1  
Which of the following is measured by profit margin?  
Select correct option:

- Operating efficiency
- Asset use efficiency
- Financial policy
- Dividend policy

**me:** 4  
**Salma:** yeh kon hai  
**me:** net1  
1  
1  
1  
7:21 PM next  
**usman.bashir.dogar:** MC100403017 : Usman Bashir Dogar

Quiz Start Time: 07:07 PM Time Left 88  
sec(s)

Question # 15 of 20 ( Start time: 07:19:47 PM ) Total Marks: 1

A business owned by a single person is known as:  
Select correct option:

- Sole-proprietorship
  - General partnership
  - Limited partnership
  - Corporation
- Salma:** kis ko kah rahay hu  
muajy

**usman.bashir.dogar:** mera tha ye sorry

**Salma:** Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

- Select correct option:
- 1.01
  - 1.26
  - 1.39
  - 1.52

7:22 PM **me:** 4

confirm  
next  
**usman.bashir.dogar:** MC100403017 : Usman Bashir Dogar

Quiz Start Time: 07:07 PM Time Left 88

sec(s)

Question # 16 of 20 ( Start time: 07:20:29 PM ) Total Marks: 1

Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity  
Select correct option:

- Current Yield
- Yield To Maturity
- Coupon Yield
- Capital Gains Yield

**me:** 2  
confirm  
next  
**usman.bashir.dogar:** MC100403017 : Usman Bashir Dogar

Quiz Start Time: 07:07 PM Time Left 86

sec(s)

Question # 17 of 20 ( Start time: 07:21:15 PM ) Total Marks: 1

Which of the following item(s) is(are) not included while calculating Operating Cash Flows?

Select correct option:

- Depreciation
- Interest
- Expenses related to firm's financing of its assets
- All of the given options

**Salma:** Which of the following item(s) is(are) not included while calculating Operating Cash Flows?

Select correct option:

- Depreciation
- Interest
- Expenses related to firm's financing of its assets
- All of the given options

**me:** 4  
confirm  
next  
7:23 PM **Salma:** During the accounting period, sales revenue is Rs. 25,000 and accounts receivable increases by Rs. 8,000. What will be the amount of cash received from customers for the period?  
Select correct option:

- Rs. 33,000
- Rs. 25,000
- Rs. 17,000
- Rs. 8,000

1  
**me:** 1  
next  
confirm  
7:23 PM **Salma:** many years will it take to pay off a Rs. 11,000 loan with a Rs. 1,241.08 annual payment and a 5% interest rate?  
Select correct option:

- 6 years
- 12 years
- 24 years
- 48 years

7:24 PM **me:** 1  
**Salma:** sure  
**me:** it may  
no idea  
[usman.bashir.dogar@gmail.com](mailto:usman.bashir.dogar@gmail.com) has left

**Salma:** muaj bhi nahi hu raha  
7:25 PM **me:** short term payment value hai  
is lie 6 hoga  
**Salma:** How many Rs. 190 annual payments must be invested at 12% to accumulate Rs. 57,921?  
Select correct option:

- 14
  - 28
  - 32
  - 56
- yeh book mai kaha haai

7:26 PM **me:** nahi hai  
32  
not confirm  
**Salma:** Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.  
Select correct option:

- Higher-coupon; lower-coupon
- Lower-coupon; higher-coupon

long-term; short-term  
None of the given options  
**me:** aapke question different hain end main

3  
confirm  
7:27 PM next

**Salma:** If you plan to save Rs. 5,000 with a bank at an interest rate of 8%, what will be the worth of your amount after 4 years if interest is compounded annually?  
Select correct option:

Rs. 5,400  
Rs. 5,900  
Rs. 6,600  
Rs. 6,802

**me:** 1  
7:28 PM **Salma:** Which of the following is the acronym for GAAP?  
Select correct option:

Generally Applied Accountability Principles  
General Accounting Assessment Principles  
Generally Accepted Accounting Principles  
General Accepted Assessment Principles

**asad.cool:** Salma , aap ka quiz complete ho gaya?  
**me:** 3  
confirm

7:29 PM 3  
3  
next

**Salma:** Finance is vital for which of the following business activity (activities)?  
Select correct option:

Marketing Research  
Product Pricing  
Design of marketing and distribution channels  
All of the given options

**me:** 4  
**Salma:** 4  
**me:** confirm  
next

**Salma:** finish  
thanks

**me:** good  
**Salma:** acha  
**me:** 2 or 3 fudda kia mere saath bhi kia tha  
7:30 PM **Salma:** kuch lka solution samj nahi a raha

**me:** magar solve hogae  
hahah  
**Salma:** hmm  
**me:** Inshallah you will succeed

next asad  
where are you asad  
**asad.cool:** yes im here  
**me:** start  
**Salma:** wo kah chala jata haai  
**asad.cool:** wait , i am opening my lms  
**me:** ok  
**Salma:** ok

7:32 PM **asad.cool:** opening  
**me:** yest  
go head  
salma be focused

**Salma:** ok  
**me:** good  
7:33 PM **asad.cool:** acc501 quiz here i start  
ready?  
**me:** ok

7:34 PM **asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 88  
sec(s)

Question # 1 of 20 ( Start time: 07:32:58 PM ) Total Marks: 1  
XYZ Company has a ROE of 12 percent and a dividend payout ratio of 40 percent. What is the firm's maximum sustainable rate of growth?  
Select correct option:

3.73%  
5.93%  
7.76%  
9.17%

**me:** 1  
7:35 PM dividend isse ziada nahi banta  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 87  
sec(s)

Question # 2 of 20 ( Start time: 07:33:43 PM ) Total Marks: 1  
In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would:  
Select correct option:

Fall  
Rise  
Remain same  
Cannot be determined with the given information

**me:** 1  
next  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 3 of 20 ( Start time: 07:34:20 PM ) Total Marks: 1  
Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?  
Select correct option:

2% to 8%  
4% to 25%  
5% to 20%  
10% to 50%  
**me:** 3  
confirm  
7:36 PM next  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 4 of 20 ( Start time: 07:34:50 PM ) Total Marks: 1  
Which of the following is disadvantage of sole proprietor business?  
Select correct option:

Easy to start

Business income is considered as personal income  
Limited sources

None of the given options

**me:** 4  
next  
**Salma:** yeh  
7:37 PM **me:** yes  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 5 of 20 ( Start time: 07:35:49 PM ) Total Marks: 1  
Which of the following statement is TRUE regarding debt?  
Select correct option:

Debt is an ownership interest in the firm.  
Unpaid debt can result in bankruptcy or financial failure.  
Debt provides the voting rights to the bondholders.  
Corporation's payment of interest on debt is fully taxable.

**me:** disadvantage ki baat kar raha hai  
2  
confirm  
next  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 88  
sec(s)

Question # 6 of 20 ( Start time: 07:36:26 PM ) Total Marks: 1  
Which of the following equation is known as Cash Flow (CF) identity?  
Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder  
CF from Assets = CF to Stockholders – CF to Creditors  
CF to Stockholders = CF to Creditors + CF from Assets  
CF from Assets = CF to Creditors + CF to Stockholder

**me:** Unpaid debt can result in bankruptcy or financial failure.  
7:38 PM 4  
next  
confrim  
next  
**Salma:** 4  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 7 of 20 ( Start time: 07:37:39 PM ) Total Marks: 1  
Which of the following is the amount of cash we would get if we actually sell an asset?  
Select correct option:

Market Value  
Book Value  
Intrinsic Value  
None of the given options

7:39 PM 1?  
**Salma:** 1  
**me:** 1  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 8 of 20 ( Start time: 07:38:14 PM ) Total Marks: 1  
Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.  
Select correct option:

Higher-coupon; lower-coupon  
Lower-coupon; higher-coupon  
Long-term; short-term  
None of the given options

**me:** 3  
7:40 PM confirm  
next  
**asad.cool:** MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

(s)

Question # 9 of 20 ( Start time: 07:38:56 PM ) Total Marks: 1

Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency  
Asset use efficiency  
Financial policy  
Dividend policy

1?

me: 4

ncet

4

444

next

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 10 of 20 ( Start time: 07:39:31 PM ) Total Marks: 1

Which of the following statement is CORRECT regarding compound interest?

Select correct option:

It is the most basic form of calculating interest.

It earns profit not only on principal but also on interest.

It is calculated by multiplying principal by rate multiplied by time.

It does not take into account the accumulated interest for calculation.

7:41 PM me: 3

It is calculated by multiplying principal by rate multiplied by time.

confrim

next

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 11 of 20 ( Start time: 07:40:27 PM ) Total Marks: 1

If you plan to save Rs. 5,000 with a bank at an interest rate of 8%, what will be the worth of your amount after 4 years if interest is compounded annually?

Select correct option:

Rs. 5,400

Rs. 5,900

Rs. 6,600

Rs. 6,802

me: 1

7:42 PM isko search karna

baad main

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 12 of 20 ( Start time: 07:41:11 PM ) Total Marks: 1

Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

Balance Sheet

Owner's Equity Statement

Cash Flow Statement

me: next

1

7:43 PM Salma: yeh kaha haai

me: next

income will show these above

asad.cool: ??

me: y1

1

1

1

next

aap check karna

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 13 of 20 ( Start time: 07:42:13 PM ) Total Marks: 1

Period costs include which of the following?

Select correct option:

Selling expense

Raw material

Direct labor

Manufacturing overhead

Salma: 4

me: 1

next

7:44 PM asad.cool: 1 or 4 ?

me: 1

1

1

confrim

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 88

sec(s)

Question # 14 of 20 ( Start time: 07:43:07 PM ) Total Marks: 1

Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

- Operating activity
- Investing activity
- Financing activity
- None of the given options

me: 4

7:45 PM next

asad.cool: 4?

ok

me: yes

next

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 15 of 20 ( Start time: 07:44:03 PM ) Total Marks: 1

Decisions about "how to raise money" and "what to do with it" are part of which of the following?

Select correct option:

Business Finance

Change management

Costing for accounting

All of the given options

me: 4

next

confirm

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 88

sec(s)

Question # 16 of 20 ( Start time: 07:44:34 PM ) Total Marks: 1

Anwar wants to invest some money so that he will have Rs. 50,000 for his child's school education 15 years from now. He can earn 8 percent compounded annually. How much does he need to invest today?

Select correct option:

Rs. 15,762

Rs. 17,271

Rs. 18,980

Rs. 20,404

7:46 PM me: no idea

Salma: yeh kaha say question

asad.cool: hmm

Salma: dein raha haai

me: mix hain

7:47 PM Salma: koi side hai

me: kia karine

Salma: mar na jaye exams mai

me: hahaah

next

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 88

sec(s)

Question # 17 of 20 ( Start time: 07:46:01 PM ) Total Marks: 1

Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

3?

me: 2

7:48 PM confrim

nextg

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 18 of 20 ( Start time: 07:46:52 PM ) Total Marks: 1

Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

me: 2

confirm

nexty

asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89

sec(s)

Question # 19 of 20 ( Start time: 07:47:23 PM ) Total Marks: 1

If you plan to save Rs. 5,000 with a bank at an interest rate of 8%, what will be the worth of your amount after 4 years if bank offers simple interest?

Select correct option:

Rs. 5,400  
Rs. 5,900  
Rs. 6,600  
Rs. 6,802  
me: 1  
Salma: 1  
yeh tu maiar bhi tha  
hana  
7:49 PM me: ok  
next  
asad.cool: MC110404078 : Asad Akhtar

Quiz Start Time: 07:32 PM Time Left 89  
sec(s)

Question # 20 of 20 ( Start time: 07:47:46 PM ) Total Marks: 1  
Which of the following statements is(are) CORRECT regarding a bond?  
Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body.  
A bond represents a loan made by investors to the issuer.  
When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.  
All of the given options  
1?  
me: 4  
4  
4  
next  
next

*Choose the Most Appropriate Answer among the given choices.*

**1. The difference between the return on a risky investment and that on a risk-free investment.**

- A. Risk Return
- B. Risk Premium**
- C. Risk Factor
- D. None of the above

**2. A group of assets such as stocks and bonds held by an investor.**

- A. Portfolio**
- B. Capital Structure
- C. Budget
- D. None of the above

**3. If the variance or standard deviation is larger then the spread in returns will be:**

- A. Less
- B. More**
- C. Same
- D. None of the Above

**4. The following risk is entirely wiped out by Diversification.**

- A. Systematic Risk
- B. Unsystematic Risk**
- C. Portfolio Risk
- D. Total Risk

5. The objective for using the concept of Diversification is to :

- A. Minimize the Risk
- B. Maximize the return
- C. **A & B**
- D. None of the Above

6. While studying the relationship in risk and return, It is commonly known that:

- A. Higher the risk, lower the return
- B. Lower the risk, higher the return
- C. **Higher the risk, higher the return**
- D. None of the above

7. This type of risk affects almost all types of assets.

- A. **Systematic Risk**
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. **7,500**
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. **8.00%**
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. **28%**
- C. 32%
- D. 35%

1. Which one of the given options involves the sale of new securities from the issuing company to general public?
- A. Secondary market
  - B. Primary market
  - C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually
7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?

- A. 6.12 times
- B. 7.11 times
- C. 8.11 times
- D. 9.11 times

9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?

- A. 20.00%
- B. 20.50%
- C. 21.00%
- D. 21.99%

10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm? <http://www.vustudents.net>

- A. Rs.60, 000
- B. Rs.64, 000
- C. Rs.72, 000
- D. Rs.74, 000

11. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?

- a. Rs.60
- b. Rs.64
- c. Rs.68
- d. Rs.74

12. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%.The price per share in this case would be \_\_\_\_\_.

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

13. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?

- a. 17%
- b. 27%
- c. 37%
- d. 47%

14. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

15. \_\_\_\_\_ is the market in which already issued securities are traded among investors.

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

6. Suppose Mehran Corporation is dealing in the Automobile industry. Based on projected costs and sales, it expects that the cash flows over the 3-year life of the project will be Rs.5, 000,000 in first year, Rs.7, 000,000 in the next year and Rs.8, 000,000 in the last year. This project would cost about Rs. 10,000,000. The net present value of the project would be \_\_\_\_\_, if discount rate is assumed to be 25%. <http://www.vustudents.net>

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000
- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

The projects costs are Rs.1, 500,000. The payback period for this investment would be \_\_\_\_\_.

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

8. Suppose Z Corporation, has the present value of its future cash flows is Rs.450, 000 and the project has a cost of Rs.300, 000, then the profitability index would be \_\_\_\_\_.

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

9. Fee paid to the consultant for evaluating the project is an example of \_\_\_\_\_.

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%. Its annual depreciation is Rs.5, 000, 000. The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000

Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options
8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
  - a. -1
  - b. 0
  - c. **1**
  - d. All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
  - a. **Book value**
  - b. Intrinsic value
  - c. Cost
  - d. Market value

10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:

- a. Erosion
- b. Piracy
- c. Cannibalism
- d. **All of the given options**

1. The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale is called -  
-----.

- a) **Operating Cycle**
- b) Cash Cycle
- c) Receivable period
- d) Inventory period

11. Which of the following does not affect cash cycle of a company?

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

12. Mr. Munir purchased goods of Rs.100,000 on June 01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.

- a) 100,000
- b) **97,000**
- c) 103,000
- d) 50,000

13. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?

- a) 3.347 approximately
- b) 5.347 approximately
- c) **2.347 approximately**
- d) 6.253 approximately

14. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?

- a) 234 days
- b) **223 days**
- c) 245 days
- d) 230 days

15. Which of the following is the cheapest source of financing available to a firm?

- a) Bank loan
- b) Commercial papers
- c) **Trade credit**
- d) None of the given options.

16. Which of the following illustrates the use of a hedging (or matching) approach to financing?

- a) Short-term assets financed with long-term liabilities.
- b) **Permanent working capital financed with long-term liabilities.**
- c) Short-term assets financed with equity.
- d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture

17. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.

<http://www.vustudents.net>

- a) **Cash discount**

- b) Quantity discount
- c) Float discount
- d) All of the given options

18. If a firm has a net float less than zero, then which of the following statements is true about the firm.

a) The firm's disbursement float is less than its collection float.

- b) The firm's collection float is equal to zero.
- c) The firm's collection float is less than its disbursement float.
- d) None of the given options.

19. Financing a long-lived asset with short-term financing would be

- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.

c) An example of "high risk -- high (potential) profitability" asset financing.

- d) An example of the "hedging approach" to financing

Note: Correct options have been highlighted.

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.

- a) 66.67%
- b) 33.34%
- c) 0%
- d) 60%

2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be

- a) 11.15%
- b) 16.13%
- c) 15.80%
- d) 13.14%

3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?

- a) They have a direct relationship
- b) They have an indirect relationship
- c) They have spontaneous relationship
- d) None of the given options

4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.

- a) Financial risk
- b) Portfolio risk
- c) Operating risk
- d) Market risk

5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As a result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 % (excluding taxes). The current borrowing rate in the market is 9.25%. If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%. This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**
  - d) 19 days
9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage

- c) Operating leverage
- d) None of the given option

*Choose the Most Appropriate Answer among the given choices.*

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

- E. Sunk cost
- F. Opportunity cost**
- G. Financing cost
- H. All of the given options

2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?

- E. 13.07 %
- F. 15.67 %
- G. 16.00 %
- H. 18.80 %**

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.

- E. Portfolio**
- F. Diversification
- G. Stock Bundle
- H. None of the given options

4. Which of the following measures the present value of an investment per dollar invested?

- E. Net Present Value (NPV)
- F. Profitability Index (PI)**
- G. Average Accounting Return (AAR)
- H. Internal Rate of Return (IRR)

5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

- E. 37.5 %
- F. 47.5 %
- G. 62.5 %**
- H. 72.5 %

6. A risk that influences a large number of assets is known as:

- E. Systematic Risk
- F. Market Risk

- G. Non-diversifiable Risk
- H. **All of the given options**
7. Which of the following risk can be eliminated by diversification?
- E. Systematic Risk
- F. **Unsystematic Risk**
- G. A & B
- H. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- E. **2.6 Years**
- F. 3.1 Years
- G. 3.6 Years
- H. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- E. Dividend Price Model
- I. **Dividend Growth Model**
- F. Dividend Policy Model
- G. All of the given options
10. Which of the following is not a quality of IRR ?
- E. Most widely used
- J. **Ideal to rank the mutually exclusive investments**
- F. Easily communicated and understood
- G. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.
- I. Ordinary Annuity
- J. Perpetuity**
- K. Dividend
- L. Interest
2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?
- I. 15.00 %
- J. 15.34 %

**K. 15.87 %**

L. 16.42 %

3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

4. When the interest rates fall, the bond is worth \_\_\_\_\_.

**I. More**

J. Less

K. Same

L. All of the given options.

5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation? <http://www.vustudents.net>

I. 30 %

J. 50 %

**K. 70 %**

L. 90 %

6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

**L. All of the given options.**

7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.

**I. Present Value**

J. Future Value

K. Capital Gain

L. Net Profit

8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?

K. Rs. 319.45

L. Rs. 390.75

**M. Rs. 419.45**

N. Rs. 463.75

9. The sensitivity of Interest Rate Risk of a bond directly depends upon:

- H. Time to maturity
- I. Coupon rate
- J. A and B**
- K. None of the given options

10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?

- H. 8 %**
- I. 10 %
- J. 12 %
- K. 14 %

[www.virtualinspire.com](http://www.virtualinspire.com)

## *ACC501 Current 11 Solved Finalterm Papers and Important MCQS*

*Solved...*

### EXAMINATION

**Question No: 1 (Marks: 1) - Please choose one**

The accounting definition of income is:

- ▶ Income = Current Assets - Current Liabilities
- ▶ Income = Fixed Assets - Current Assets
- ▶ Income = Revenues - Current Liabilities
- ▶ **Income = Revenues - Expenses pg 17**

**Question No: 2 (Marks: 1) - Please choose one**

What would be the capital spending for an organization who has purchased fixed assets of Rs. 200,000 and sold fixed assets of Rs. 45,000?

- ▶ Rs. 245,000
- ▶ Rs. 200,000
- ▶ **Rs.1 55, 0 0 0**
- ▶ Rs. 45,000

$$\begin{aligned} &200000- \\ &45000=155000 \end{aligned}$$

**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

o Proceeds from sale of equipment Rs. 25,000  
On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

- ▶ Rs. 3,000 net cash inflow
- ▶ Rs. 3,000 net cash outflow
- ▶ **Rs. 8,000 net cash inflow**
- ▶ Rs. 8,000 net cash inflow

**Question No: 4 ( Marks: 1 ) - Please choose one**

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the company?

- ▶ Rs. 45,000
- ▶ **Rs. 15,000**
- ▶ (Rs. 45 ,000)
- ▶ (Rs. 15,000)

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following would not improve the current ratio?

- ▶ Borrow short-term to finance additional fixed assets
- ▶ **Issue long-term debt to buy inventory**
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following are incorporated into the calculation of the Du Pont Identity?

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

▶ I, II, and III only

▶ I, III, and IV only

▶ **II, III and IV only pg 45**

▶ I, II, III, 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

Debenture is an unsecured bond for which no specific pledge of property is made

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following type of return refers to the percentage change in the amount of money you have?

- ▶ **Nominal return**

- ▶ Real return

- ▶ Inflation return

- ▶ None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

**Question No: 11 ( Marks: 1 ) - Please choose one**

When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

- ▶ Low; higher

- ▶ High; lower
- ▶ **High; higher**
- ▶ None of the given options  
When real rate is high, all interest rates will tend to be higher and vice versa.

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is the extra yield that investors 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**  
Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as **taxability premium**

**Question No: 13 ( Marks: 1 ) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

- ▶ Primary Market
  - ▶ **Secondary Market pg 100**
  - ▶ Tertiary Market
  - ▶ None of the given options
- Secondary Market**  
The market in which previously issued securities are traded among

investors

**Question No: 14 (Marks: 1) - Please choose one**

Place the following items in the proper order of completion regarding the capital budgeting process.

(I) Perform a post-audit for completed projects;

(II) Generate project proposals;

(III) Estimate appropriate cash flows; (IV)

Select value-maximizing projects; (V)

Evaluate projects.

▶ II, V, III, IV, and I

▶ III, II, V, IV, and I

▶ **II, III, V, IV, and I**

▶ II, III, IV, V, and I

<http://wps.pearsoned.co>

[.uk/wps/grader](http://wps.pearsoned.co)

**Question No: 15 (Marks: 1) - Please choose one**

An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

▶ Accepted; rejected

▶ Accepted; accepted

▶ Rejected; rejected

▶ **Rejected; accepted pg 109**

**Question No: 16 (Marks: 1) - Please choose one**

IRR and NPV rules always lead to identical decisions as long as :

- ▶ Cash flows are conventional
- ▶ Cash flows are independent
- ▶ **Cash flows are both conventional and independent**
- ▶ None of the given options

**Question No: 17 ( Marks: 1 ) - Please choose one**

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

- ▶ **A mutually exclusive project**
- ▶ An independent project
- ▶ A dependent project
- ▶ A contingent project

**Question No: 18 ( Marks: 1 ) - Please choose one**

Finding Net Present Value comes under which type of capital budgeting criteria ?

- ▶ **Discounted Cash Flow Criteria pg 118**
- ▶ Accounting Criteria
- ▶ Payback Criteria
- ▶ None of the given options

**Question No: 19 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by

the decision under consideration.

▶ **Sunk**

▶ Opportunity

▶ Fixed

▶ Variable

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock ?

▶ **WACC (Weighted Average Cost of Capital)**

▶ AAR (Average Accounting Return)

▶ IRR (Internal Rate of Return)

▶ MIRR (Modified Internal Rate of Return)

**Question No: 21 ( Marks: 1 ) - Please choose one**

Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

▶ **Sunk cost**

▶ Opportunity cost

▶ Both sunk cost and opportunity cost

▶ Neither sunk cost nor opportunity cost

**Question No: 22 ( Marks: 1 ) - Please choose one**

The current price of SNT stock is Rs. 50. Dividends are expected to grow at 7 percent indefinitely and the most current dividend was Rs. 1.00. What is the

required rate of return on SNT stock?

- ▶ 9.00 percent
- ▶ 9.14 percent
- ▶ **9.33 percent**
- ▶ 10.65 percent

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

- ▶ The right to vote for directors
- ▶ **The right to share proportionately in dividend paid**
- ▶ The right to vote on stockholder matters of great importance
- ▶ All of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which one of the following typically applies to preferred stock but not to common stock?

- ▶ Dividend yield
- ▶ **Cumulative dividends**
- ▶ Voting rights
- ▶ Tax deductible dividends

**Question No: 25 ( Marks: 1 ) - Please choose one**

You must own which of the following to vote against a merger proposal from another corporation?

- ▶ Preferred share
- ▶ A debenture
- ▶ **Common stock**
- ▶ Cumulative dividend stock

**Question No: 26 (Marks: 1) - Please choose one**

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

- ▶ **To maintain a high ratio of current assets to sales**
- ▶ To maintain a low ratio of current assets to sales
- ▶ To maintain less short-term debt and more long-term debt
- ▶ To maintain more short-term debt and less long-term debt

Size of investments in current assets

- Flexible policy
- maintain a high ratio of current assets to sales**
- Restrictive policy
- maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- less short-term debt and more long-term debt**
- Restrictive policy
- more short-term debt and less long-term debt**

If policies

**Question No: 27 (Marks: 1) - Please choose one**

Which of the following strategy belongs to flexible policy regarding financing of

current assets ?

- ▶ To maintain a high ratio of current assets to sales
- ▶ To maintain a low ratio of current assets to sales
- ▶ **To maintain less short-term debt and more long-term debt**
- ▶ To maintain more short-term debt and less long-term debt

**Question No: 28 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

- ▶ **Rs. 4,000**
- ▶ + Rs. 2,000
- ▶ Rs. 2,000
- ▶ + Rs. 4,000

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

- ▶ Stock Bundle
- ▶ **Portfolio**
- ▶ Capital Structure
- ▶ None of the given options

**Question No: 31 (Marks: 1) - Please choose one**

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

- ▶ Probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

**Question No: 32 (Marks: 1) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45.

During the past year the common stock paid an annual dividend of Rs. 2.40.

The

firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

- ▶ 5.3%
- ▶ **194.2%**
- ▶ 83.11%
- ▶ 94.2%

**Question No: 33 (Marks: 1) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share.

Over

the last year, he received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. As per given information, what will be his total percentage return ?

- ▶ 10 %
- ▶ **20 %**

▶ 35 %

▶ 45 %

**Dividend yield =  $2/20=0.1\%$**

**Capital gain yield =  $(25-20)/20=0.25\%$**

**Total percentage return  $0.1+0.25*100=35\%$**

**Question No: 34 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working 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

Operating cash  
flow - change in  
NWC - Capital  
spending  
 $225000 - (-40000) -$   
 $100000 = 165000$

**Question No: 35 ( Marks: 1 ) - Please choose one**

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is debt?

▶ **37.50%**

▶ 50.00%

▶ 62.50%

▶ 70.00%

$$250+150=400$$

$$250/400=0.625$$

$0.625 \times 100 = 62.5$  is equity and

$100 - 62.5 = 37.5$  is debt

**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%

$$R_D \times (1$$

$$- T_c).$$

$$7\% \times (1 -$$

$$0.34) = 4$$

$$.62$$

**Question No: 37 ( Marks: 1 ) - Please choose one**

Opportunity losses from having inadequate inventory are termed as:

▶ Carrying costs

▶ Opportunity costs

▶ Restocking costs

▶ **Safety reserve costs**

**Restocking costs** - costs of placing an order with suppliers or the cost of setting up a production run

- **Safety reserve costs** - opportunity losses from having inadequate inventory e.g. lost sales and goodwill
- A trade-off
- Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels
  - The goal of inventory management is to minimize the sum of these two costs

**Question No: 38 ( Marks: 1 ) - Please choose one**

What 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

▶ **69 units**

▶ 89 units

▶ 95 units

$$EOQ = \frac{2T \times F}{CC}^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

**Question No: 39 ( Marks: 1 ) - Please choose one**

The cost of common equity for a firm is:

- ▶ The required rate of return on the company's stock
- ▶ The yield to maturity on the bond
- ▶ **The risk-free rate**
- ▶ The market risk premium

**Question No: 40 ( Marks: 1 ) - Please choose one**

A firm has 3 million in 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**

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

- ▶ Rs. 20,350
- ▶ Rs. 30,919
- ▶ **Rs. 36,919**
- ▶ Rs. 80,350

$$50350 - 30000 = 20350 \times 34\% = 6919$$
$$30000 + 6919 = 36919$$

**Question No: 42 ( Marks: 1 ) - Please choose one**

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)**

Write down the components of total return in terms of dividend growth model. Answer

$$R = D_1/P_0 + g$$

This tells us that the total return, R, has two components

$D_1/P_0$  is called the **Dividend Yield**. Because this is calculated as the expected cash dividend by the

current price, it is conceptually similar to the current yield on a bond

Growth rate, g, is also the rate at which the stock price grows. So it can be interpreted as **capital gains yield**

**Question No: 44 (Marks: 3)**

What is the difference between operating cycle and cash cycle?

The operating cycle is the sum of the inventory and receivable periods

Operating cycle = Inventory period + Receivable period

**Cash cycle**

•The time between cash disbursement and cash collection. (We spend cash on day 30, but don't collect until

day 105. so we have to arrange finances \$1,000 for  $105 - 30 = 75$  days)

•So we can describe the cash cycle as:

Cash cycle = Operating cycle - Accounts payable period

75 days = 105 days - 30 days

**Question No: 45 (Marks: 3)**

How a firm's overall cost of capital is calculated ?

We know that a firm's overall cost of capital will reflect the required return on the firm's assets as a whole.

•Given that a firm uses both debt and equity capital, this overall cost of capital will be a mixture of the returns needed to compensate its creditors and stockholders.

- Cost of capital will reflect
- Cost of equity capital
- Cost of debt capital  
Cost of Equity

**Question No: 46 (Marks: 5)**

Define the following terms:

(i) Dealer

An agent who buys and sells securities from a maintained inventory

It stands ready to buy securities from investors wishing to sell them and sells securities to investors

wishing to buy them

(ii) Broker

An agent who arranges security transactions among investors, matching investors wishing to buy securities with investors wishing to sell securities

They do not buy or sell securities for their own accounts. Facilitating trades others is their business

(iii) Bid Price

(iv) Strike Price

The price that the dealer wishes to pay is the bid price and the price at which the dealer sells the securities is called the strike price.

(v) Spread

The difference between the bid and ask price is called the 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 :

Debentures = Rs. 5.00 Billion

Preferred shares	=	Rs. 2.65 Billion
Common shares	=	Rs. 9.35 Billion
Total	=	Rs. 17 Billion

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) need s one of two machines. Machine X costs Rs. 25,000 and has cash flow s of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flow s 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.

**Paper 2**

**Question No: 1 (Marks: 1) - Please choose one**

Which of the following is the difference between current assets and current? Liabilities?

- ▶ Surplus Asset
- ▶ Short-term Ratio
- ▶ **Working Capital**
- ▶ Current Ratio

**Question No: 2 (Marks: 1) - Please choose one**

A business owned by a single person is known as:

- ▶ **Sole-proprietorship**
- ▶ General partnership
- ▶ Limited partnership

- ▶ Corporation

**Question No: 3 ( Marks: 1 ) - Please choose one**

In a common-size balance sheet, all items are shown as a percentage of:

- ▶ Total Assets
- ▶ Total Liabilities
- ▶ Total Owners Equity
- ▶ **None of the given options**

**Question No: 4 ( Marks: 1 ) - Please choose one**

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

- ▶ Liquidity Ratio
- ▶ **Solvency Ratios**  
pg 34
- ▶ Asset Management Ratios
- ▶ Market Value Ratios

**Question No: 5 ( Marks: 1 ) - Please choose one**

According to Du Pont Identity, ROE is affected by which of the following?

- ▶ Operating efficiency
- ▶ Asset use efficiency
- ▶ Financial Leverage

- ▶ **All of the given options**

The Du Pont identity tells us that ROE is affected by three things:  
Operating efficiency (as measured by profit margin)  
Asset use efficiency (as measured by total assets turnover)

Financial Leverage (as  
measured by equity multiplier)

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following is a series of constant cash flows that occur at the end of?  
each period for some fixed number of periods?

- ▶ **Ordinary annuity**
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed  
number of  
periods is called an ordinary  
**Annuity**

**Question No: 7 ( Marks: 1 ) - Please choose one**

A portion of profits, which a company distributes among its shareholders,  
is known as:

- ▶ **Dividends**
- ▶ Retained Earnings
- ▶ Capital Gain
- ▶ Interest

**Question No: 8 ( Marks: 1 ) - Please choose one**

What amount a borrower would pay at the end of fourth year with a 4 -year,  
12%, interest-only loan of Rs. 3,000?

- ▶ Rs. 360
- ▶ Rs. 2,000
- ▶ Rs. 3,000
- ▶ **Rs. 3,360**

**Question No: 9 (Marks: 1) - Please choose one**

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

- ▶ 3 percent
- ▶ 6 percent
- ▶ 9 percent
- ▶ 12 percent

**Question No: 10 (Marks: 1) - Please choose one**

Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

- ▶ More than
- ▶ Less than
- ▶ Equal to
- ▶ None of the given options

**Question No: 11 (Marks: 1) - Please choose one**

When corporations borrow, they generally promise to:

- I. Make regular scheduled interest payments
- II. Give the right of voting to bondholders
- III. Repay the original amount borrowed (principal)
- IV. Give an ownership interest in the firm

- ▶ I and II

- ▶ I and III pg

▶ II and IV

▶ I, III, and IV

**Question No: 12 (Marks: 1) - Please choose one**

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

▶ Repayment

▶ Seniority

▶ **Call provision**

▶ Protective covenants

**Question No: 13 (Marks: 1) - Please choose one**

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

▶ Rs. 30

▶ Rs. 45

▶ Rs. 60

▶ **Rs. 75**

$9/0.12=75$

**Question No: 14 (Marks: 1) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

Primary Market

**Secondary Market**

Tertiary Market

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

**Question No: 16 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 17 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding a normal project ?

If the IRR of a project is greater than the discount rate,  $k$ , then its PI will be

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

**Question No: 18 (Marks: 1) - Please choose one**

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

**Relevant Cash Flows**

Incremental Cash Flows

Negative Cash Flows

All of the given options

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following is NOT a problem while determining incremental cash flows?

**Merchandize cost**

Sunk cost

Opportunity cost

None of the given options

**Question No: 20 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

Sunk

Opportunity

Fixed

Variable

**Question No: 21 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

**The cost of common equity and the cost of debt**  
Pg  
146

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 22 (Marks: 1) - Please choose one**

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg100**

These stocks hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

**Question No: 23 (Marks: 1) - Please choose one**

Mr. A, as a financial consultant, has prepared a feasibility report of a project for

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

**Sunk cost**

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

**Question No: 24 (Marks: 1) - Please choose one**

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

**NPV is equal to Zero**

NPV is less than Zero

All of the given options

**Question No: 25 (Marks: 1) - Please choose one**

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return**

**Average Accounting Return**

- AAR is a measure of accounting profit relative to book value
  - AAR rule is to take an investment if its AAR exceeds a benchmark

**Question No: 26 (Marks: 1) - Please choose one**

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

**1st proposition**

2nd proposition

3rd proposition

None of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets

The firm s cost of debt

**The firm s stockholders pg 153**

The firm s debt-equity ratio

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

**Business Risk found  
on internet**

Functional Risk

None of the given options

**Question No: 29**

**( Marks: 1 ) - Please choose one**

Which of the following type of risk influences a large number of assets ?

**Systematic Risk**

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

•If we always receive exactly what we expect then the investment will be risk-free.

•Systematic Risk

•A risk that influences a large number of assets. It is also called market risk

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

**Strike call in a company pg 140**

**Question No: 31 ( Marks: 1 ) - Please choose one**

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

**Question No: 32 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

**Rs. 250**

Rs. 1,000

Rs. 1,350

$50 \times 20 = 1000$

$50 \times 25 = 1250$

$1250 - 1000 = 250$

**Question No: 33 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

**Rs. 200,000**

Rs. 215,000

Rs. 230,000

$2050000 -$

$(+50000)$

$200000$

**Question No: 34 ( Marks: 1 ) - Please choose one**

Autos & computers are included in which of the following MACRS property

class?

3-year

**5-year**

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

**Question No: 35 ( Marks: 1 ) - Please choose one**

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

**15.00%** pg  
142

**Question No: 36 ( Marks: 1 ) - Please choose one**

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other  
lenders

The selling firm can engage in price discrimination

The selling firm can obtain favorable tax treatment

**All of the given options**

Trade Credit is more likely to be granted if:

- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
  - Excess capacity

**Question No: 37 ( Marks: 1 ) - Please choose one**

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

**Rs. 1,940**

Rs. 2,000

Rs. 2,100

**Question No: 38 ( Marks: 1 ) - Please choose one**

Shortage or Restocking costs                      with inventory levels

Rise

**Decline**

Remain unaffected

None of the given options  
Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

**Question No: 39 ( Marks: 1 ) - Please choose one**

Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

**Transaction motive**

Precautionary motive

Personal motive

**Speculative Motive** - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

• Reserve borrowing utility and Marketable securities

• **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities

associated with a firm's ongoing operations.

**Question No: 40 ( Marks: 1 ) - Please choose one**

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

**0.08944**

0.09101

0.09487

0.10521

**Question No: 41 ( Marks: 1 ) - Please choose one**

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the debt to capitalization ratio?

20%

33%

40%

67%

**Question No: 42 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders. Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition. pg 149**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 (Marks: 3)**

Define Net Present Value (NPV) and write down the NPV rule to accept a project.

**Question No: 44 (Marks: 3)**

What do you mean by the terms of business risk and financial risk?

**Question No: 45 (Marks: 3)**

Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

**Question No: 46 (Marks: 5)**

A replacement project has an initial investment of Rs.10,000; and cash flows are Rs.3,400; Rs. 2,500; Rs.3,900; and Rs.5,200 for years 1 through 4, respectively. The firm has decided to assume that the appropriate cost of capital is 10%. What will be the net present value of the project? Is the project feasible?

**Question No: 47 (Marks: 5)**

Describe the relationship between capital structure and weighted average cost of capital (WACC).

**Question No: 48 (Marks: 10)**

The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

Year	Cash flow rs	
	Project A	Project B
1	30000	30000
2	30000	30000
3	35000	20000
4	25000	30000
5	25000	250000

Calculate Internal Rate of Return (IRR) for both projects.

On the basis of findings in (i):

- Which project should be selected if projects are mutually exclusive?
- Which project or projects should be selected if projects are independent

**Question No: 49 (Marks: 10)**

Identify the sources and uses of cash and complete the table by following the example.

Example	Increase	Source
Increasing current liabilities		
1. Increasing fixed asset		
2. Decreasing equity		
3. Increasing long-term debt		
4. Decreasing fixed assets		
5. Increasing current assets other than cash		

6. Increasing equity
7. Decreasing long-term debt
8. Decreasing current assets other than cash
9. Accounts Payable go up by Rs. 1,500
10. Accounts receivable go up by Rs. 2,000

**Paper 3**

**FINAL TERM EXAMINATION**

**Question No: 1 ( Marks: 1 ) - Please choose one**

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

**The Agency Problem**

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency

costs

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

Analysis

Structuring

Budgeting

**Liquidity pg 14**

**Question No: 3 (Marks: 1) - Please choose one**

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

**Administrative expenses**

**Question No: 4 (Marks: 1) - Please choose one**

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

**Question No: 5 (Marks: 1) - Please choose one**

Which of the following is CORRECT regarding the present value discount factor?

It is always greater than 1.0

It decreases as the discount rate increases

It is equal to zero when discount rate is zero

**It increases as the time period increases**

**Question No: 6 ( Marks: 1 ) - Please choose one**

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

**Question No: 7 ( Marks: 1 ) - Please choose one**

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

**Question No: 8 ( Marks: 1 ) - Please choose one**

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which earns 8.75 percent compounded annually and second is the savings account B, which earns 8.50 percent compounded monthly. Which account should you choose and why?

Account A; because it has a higher effective annual rate

Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

**Question No: 9 (Marks: 1) - Please choose one**

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

**Question No: 10 (Marks: 1) - Please choose one**

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

**Debt provides the voting rights to the bondholders. pg 78**

Corporations payment of interest on debt is fully tax deductible.

**Question No: 11 (Marks: 1) - Please choose one**

The relationship between real and nominal returns is described by the:

M&M Proposition

Capital Asset Pricing Model

**Fisher s Effect**

BCG Matrix

**Question No: 12** (Marks: 1) - Please choose one

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

**Default risk premium**

Taxability premium

Interest rate risk premium

Inflation risk premium

**Question No: 13** (Marks: 1) - Please choose one

For which type of stocks, the dividends grow at a constant rate?

**Zero Growth Stocks pg 91**

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options

**Question No: 14** (Marks: 1) - Please choose one

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

Straight Voting

Statutory Voting

Cumulative Voting

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

**Question No: 16 (Marks: 1) - Please choose one**

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

**Strike Price pg 100**

Complex Price

**Question No: 17 (Marks: 1) - Please choose one**

Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

2.6 Years

**3.1 Years**

3.6 Years

4.1 Years

**Question No: 18 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg**

**119**

**Question No: 20 (Marks: 1) - Please choose one**

Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

**Question No: 21 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

**Sunk**

Opportunity

Fixed

Variable

**Question No: 22 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

**The cost of common equity and the cost of debt**

The cost of common equity and the cost of preferred stock  
The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 23** (Marks: 1) - Please choose one

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

**By 10 percent each year**

At a constant rate

By a decreasing amount

At a decreasing rate

**Question No: 24** (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding Average Accounting Return?

**AAR is a rate that makes the NPV equal to zero**

AAR is a measure of accounting profit relative to book value

**An investment is acceptable if its AAR is greater than a benchmark AAR**

None of the given options  
worn questions

**Question No: 25** (Marks: 1) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

Question No: 26 (Marks: 1) - Please choose one

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

**18.33%**

20.98%

$$25\%/75\%=0.33$$

$$16\%+(16\%-9\%)x0.33$$

$$0.16+(0.16-0.09)x0.33$$

$$0.16+0.0231=18.31\%$$

Question No: 27 (Marks: 1) - Please choose one

Which of the following activities decreases cash ?

Increasing current liabilities

**Decreasing long term debt**

Decreasing fixed assets

Increasing equity  
Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
  - Increasing fixed assets

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

**Operating Cycle**

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
  - Converted to cash when we collect from the sale

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

**Accounts receivable period pg 164**

Collection period

Accounts payable period

**Question No: 30 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

**Rs. 2,000**

+ Rs. 4,000

**Question No: 31 (Marks: 1) - Please choose one**

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

**Question No: 32 (Marks: 1) - Please choose one**

Which of the following statement(s) is (are) true regarding Return on Investment?

One of the responsibilities of the financial manager is to assess the value of the proposed investment

The return consists of income earned and capital gain

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

**Question No: 33 (Marks: 1) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

**Question No: 34 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

**Rs. 330,000**

Rs. 470,000

**Question No: 35 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

Rs. 70,000

RS 230000

Rs. 370,000  
correct

Rs. 470,000  
300000-  
70000=230000

**Question No: 36** (Marks: 1) - Please choose one

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34%?

**Rs. 19,040**

Rs. 36,960

Rs. 56,000

Rs. 800,000

$800000 * 7\% = 56000$

$56000 * 34\% = 19040$

**Question No: 37** (Marks: 1) - Please choose one

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

**Precautionary motive**

Personal motive

• **Precautionary Motive** - the need to hold cash as a safety margin to act as a financial reserve

**Question No: 38 (Marks: 1) - Please choose one**

Suppose market value exceeds book value by Rs. 225,000. What will be the aftertax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

**Rs. 148,500**

Rs. 191,000

Rs. 225,000

$$225000 * 34\% = 76500$$

$$225000 - 76500 = 148500$$

**Question No: 39**

**(Marks: 1) - Please choose one**

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15  
%

25  
%

35  
%

**50  
%**

$$(27-18)/18=0.5\%$$

**Question No: 40** (Marks: 1) - Please choose one

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

**Question No: 41** (Marks: 1) - Please choose one

Standard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

**Question No: 42** (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition.**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 (Marks: 3)**

What is the difference between dealer and broker ?

**Question No: 44 (Marks: 3)**

What does Static Theory of Capital Structure state?

**Question No: 45 (Marks: 3)**

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

**Question No: 46 (Marks: 5)**

What is the difference between Leverage and Un -levering?

**Question No: 47 (Marks: 5)**

Match the capital budgeting techniques are given in Column A to the criteria in Column B. Provide the correct answer in Column C.

<b>Column A</b>	<b>Column B</b>	<b>Column C</b>
Net Present Value	Discounted Cash Flow Criteria	
Average Accounting Return	Payback Criteria	
Payback Period	Discounted Cash Flow Criteria	
Internal Rate of Return	Accounting Criteria	

**Question No: 48 (Marks: 10)**

Each of the following mutually exclusive investment projects involves an initial outlay of Rs. 240,000. The company's required rate of return is 11 percent. The estimated net cash flows for the projects are as follows:

Year	Cash flows	
	Project A	Project B
1	140000	20000
2	80000	40000
3	60000	60000
4	20000	100000
5	20000	180000

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

**Question No: 49 (Marks: 10)**

Consider the following chronological events:

Day	Activity	Cash effect
0	Acquire inventory on credit	None
35	Pay for inventory	Rs 5000
70	Sell inventory on credit	None
110	Collect on sale	+Rs 6000

From the given information, find out:

- (i) inventory period
- (ii) Accounts receivable period
- (iii) Accounts payable period
- (iv) Operating cycle
- (v) Cash cycle

The next dividend for a company is Rs. 6 per share. The stock current price is Rs. 57 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5% ?

Select correct option:

12.88%

13.07%

14.22%

**15.53%**

$$D1 = D0 \times (1 + g)$$

$$RE = D1 / P0 + g$$

$$6 \times (1 + 0.05) = 6.3$$

$$6.3 / 57 + 0.05 = 16\%$$

Which of the following is the time period between the acquisition of inventory and the collection of cash from receivables

Select correct option

**Operating Cycle pg 164**

Cash Cycle

Current Cycle

None of the given options

Question # 2 of 15 ( Start time: 04:07:41 PM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ?

Select correct option:

Operating Cycle

Cash Cycle

Current Cycle

**None of the given options**

Question # 6 of 15 ( Start time: 04:10:23 PM ) Total Marks: 1

Business risk depends on which of the following risk of the firm's assets ?

Select correct option:

**Systematic Risk pg 155**

Diversifiable Risk

Unsystematic Risk

None of the given options

Question # 8 of 15 ( Start time: 04:11:30 PM ) Total Marks: 1

What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs ?

Select correct option:

Value of the firm increases and WACC decreases

Value of the firm decreases and WACC increases

**Value of the firm and WACC both are not affected pg 158**

Capital structure have to do nothing with value of the firm and WACC

Question # 13 of 15 ( Start time: 04:14:19 PM ) Total Marks: 1

Sources of cash always involve \_\_\_\_\_ a liability (or equity) account or \_\_\_\_\_ an asset account.

Select correct option:

**increasing; decreasing pg 163**

decreasing; increasing

increasing; increasing

decreasing; decreasing

Question # 14 of 15 ( Start time: 03:41:38 PM ) Total Marks: 1

Which of the following refers to the use of borrowed money to increase the return on equity of an investment purchase ?

Select correct option:

**Financial Leverage**

Operating Leverage

Structural Leverage

None of the given options

Question # 1 of 15 ( Start time: 02:20:49 PM ) Total Marks: 1

The value of the firm's cash flows (or the value of the firm) is \_\_\_\_\_ when the WACC is \_\_\_\_\_.

Select correct option:

minimized; minimized

maximized; maximized

**maximized; minimized pg 149**

None of the given options

Question # 5 of 15 ( Start time: 02:22:43 PM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is debt ?

Select correct option:

20%

**33%**

40%

67%

Ref:

$4+2=6$

$4/6=0.66$

$0.66*100=66.67$  is equity and

$100-67=33$  is debt

Question # 7 of 15 ( Start time: 02:24:51 PM ) Total Marks: 1

Which of the following risk is associated with the unique circumstances of a particular company ?

Select correct option:

Financial Risk

**Business Risk**

Functional Risk

None of the given options

Question # 10 of 15 ( Start time: 02:27:15 PM ) Total Marks: 1

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

Select correct option:

The required return of firm's assets

The firm's cost of debt

**The firm's stockholders pg 153**

The firm's debt-equity ratio

Question # 13 of 15 ( Start time: 02:29:40 PM ) Total Marks: 1

Which of the following is the difference between the current assets and the current liabilities ?

Select correct option:

Net difference

**Net working capital**

Current ratio

Net available capital

Question # 1 of 15 ( Start time: 02:38:01 PM ) Total Marks:

1 Operating cycle = \_\_\_\_\_

Select correct option:

Collection period - accounts payable period

Inventory period - accounts receivable period

**Inventory period + accounts receivable period pg 164**

Inventory period + account payable period

Question # 2 of 15 ( Start time: 02:39:24 PM ) Total Marks: 1

A firm's capital structure may include which of the following ?

Select correct option:

Common stocks

**Preferred Stocks not sure**

Bonds

All of the given options

Question # 14 of 15 ( Start time: 02:46:33 PM ) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock

sells for Rs. 28. As per given information, what will be the capital gains yield ? Select

correct

option:

15.85%

25.10%

**27.27%**

45.00%

Capital gain yield formula

$(28-22)/22$

$=0.2727$

Question # 15 of 15 ( Start time: 02:48:05 PM ) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ?

Select correct option:

Leverage

Levering

**Un-levering pg 152**

Loaning

Question # 1 of 15 ( Start time: 11:23:11 AM ) Total Marks: 1

Which of the following activities does not increase cash ?

Select correct option:

Increasing current liabilities

Increasing equity

**Increasing current assets other than cash pg 163**

Decreasing fixed assets

Question # 3 of 15 ( Start time: 11:25:12 AM ) Total Marks: 1

The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

**Financial Risk pg 155**

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 ( Start time: 11:27:05 AM ) Total Marks: 1

What will happen to cash cycle if payable period is lengthened ? Select correct option:

Cash cycle increases

**Cash cycle decreases 167**

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 ( Start time: 11:28:03 AM ) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

**1st proposition pg 153**

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 ( Start time: 11:29:12 AM ) Total Marks: 1

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 equity ?

Select correct option:

33.33%

50.00%

**62.50%**

85.00%

$$=250+150=400$$

$$250/400=62.5\text{equity and remaining }37.5\text{ is debt}$$

Question # 8 of 15 ( Start time: 11:30:35 AM ) Total Marks: 1

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

Select correct option:  
Probability distribution  
**The expected return**  
The standard deviation  
Coefficient of variation

Question # 10 of 15 ( Start time: 11:32:28 AM ) Total

Marks: 1 Cash cycle = \_\_\_\_\_

Select correct option:

Inventory period - accounts receivable period  
Inventory period + accounts receivable period  
Inventory period + account payable period

**Operating cycle - accounts payable period pg 165**

Question # 12 of 15 ( Start time: 11:33:22 AM ) Total Marks: 1

According to which of the following theory, the firm's capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Select correct option:

M&M Proposition  
Modern theory of bankruptcy costs  
**Static theory of capital structure not sure**  
Dividend growth theory

Question # 13 of 15 ( Start time: 11:34:55 AM ) Total Marks: 1

The cost of common equity for a firm is:

Select correct option:

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 # 14 of 15 ( Start time: 11:36:17 AM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 25% and 12% respectively.

This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

**Investment A is more volatile than Investment B**

Investment B is more volatile than Investment A

Question # 1 of 15 ( Start time: 11:42:21 AM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ? Select correct option:

Operating Cycle

Cash Cycle  
Current Cycle

**None of the given options pg 165**

Question # 4 of 15 ( Start time: 11:47:38 AM ) Total Marks: 1

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

**WACC (Weighted Average Cost of Capital) 146**

AAR (Average Accounting Return)

Question # 5 of 15 ( Start time: 11:49:02 AM ) Total Marks: 1

What will happen to cash cycle if inventory and receivable periods get longer ? Select correct option:

**Cash cycle increases pg 167**

Cash cycle decreases

Cash cycle remain unaffected

Cash cycle has to do nothing with inventory and receivable periods

**Standard deviations for Investment A and Investment B are 15% and 32% respectively. This indicates that :**

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 9 of 15 ( Start time: 11:52:21 AM ) Total Marks: 1

Which of the following term refers to the use of personal borrowing to alter the degree of financial leverage ?

Select correct option:

Un-levering

**Homemade leverage pg 151**

Levering

Loaning

Question # 10 of 15 ( Start time: 11:53:13 AM ) Total Marks: 1

Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt pg 143**

Cost of preferred stock  
Cost of common equity  
Cost of retained earnings

Question # 13 of 15 ( Start time: 11:55:21 AM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is equity ?

Select correct option:

20%

33%

40%

**67%**

$4+2=6$

$4/6=0.67$

Question # 14 of 15 ( Start time: 11:56:50 AM ) Total Marks: 1

Under what situation, we can safely say that one capital structure is better than the other ?

Select correct option:

If it results in a higher weighted average cost of capital

**If it results in a lower weighted average cost of capital**      **pg 149**

If it results in a lower value of the firm

Capital structure has to do nothing with weighted average cost of capital

Question # 5 of 15 ( Start time: 10:55:09 PM

) Total Marks: 1

Suppose market value exceeds book value by Rs. 200,000. What will be the after-tax proceeds if

there is a tax rate of 35 percent ?

Select correct option:

Rs. 97,500

Rs. 105,600

**Rs. 130,000**

Rs. 150,000

$$200000 * 35\% = 70000$$

$$200000 - 70000 = 130000$$

Question # 9 of 15 ( Start time: 02:23:24 PM ) Total Marks: 1

In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

Independent

Correlated

Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share.

Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year,

the stock sells for Rs. 31. As per given information, what will be his total percentage

return ?

Select correct option:

10.63%

20.20%

35.12%

**41.30%**

First find dividend yield then capital gain yield then plus both answer

Let see

$$\text{Dividend yield} = 1.50/23 = 0.06521\%$$

$$\text{Capital gain yield} = (31-23)/23 = 0.3478\%$$

$$\text{Total percentage return} = 0.06521 + 0.3478 * 100 = 41.30$$

The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

Rs. 15,000

Rs. 15,220

Rs. 20,327

**Rs. 25,425**

Which one of the following statement is INCORRECT regarding MACRS depreciation ? Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

**Annual depreciation remains constant every year even by using different rates.**

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

Total portfolio risk is equal to :

Select correct option:

systematic risk plus non-diversifiable risk

unsystematic risk plus diversifiable risk

systematic risk plus market risk

**systematic risk plus diversifiable risk**

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

**11.36%**

21.12%

40.00%

**d.y= 2.50/22=0.1136%**

Which of the following type of risk can be eliminated by diversification ? Select correct option:

- Systematic Risk
- Market Risk
- Unsystematic Risk**
- None of the given options

Which of the following is the return that firm's creditors demand on new borrowings ? Select correct option:

- Cost of debt**
- Cost of preferred stock
- Cost of common equity
- Cost of retained earnings
- None of the given options

What will be the risk premium for a stock that has an expected return rate of 14% and a risk-free rate of 5% ?

Select correct option:

- 6 %
- 9 %
- 15 %
- 24%
- 14-5=9**

Which of the following is NOT an example of systematic risk ? Select correct option:

- Interest Rate
- Inflation
- Strike call in a company**
- Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your :

Select correct option:

- Risk on investment
- Return on investment**
- Gain on investment
- loss on investment

Standard Company purchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is worth 25% of the purchase price now and it is being sold at this price. What is the vehicle's market value ?

Select correct option:

Rs. 14,875  
**Rs. 112,500**  
Rs. 337,500  
Rs. 230,000

Question # 3 of 15 ( Start time: 05:24:09 PM ) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

70

Select correct option:

70  
120  
200  
280

**4\*50=200**

Question # 4 of 15 ( Start time: 05:25:30 PM ) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ? Select correct option:

Equipment used in research  
Autos & computers

**Most industrial equipment**

All of the given options

Question # 5 of 15 ( Start time: 05:26:42 PM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 6 of 15 ( Start time: 05:27:45 PM ) Total Marks:

1 Systematic Risk is also known as :

Select correct option:

Diversifiable Risk

**Market Risk**

Residual Risk

Asset-specific Risk

Question # 7 of 15 ( Start time: 05:28:20 PM ) Total Marks: 1

A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

$$600000 * 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 ( Start time: 05:29:04 PM ) Total

Marks: 1 Unsystematic Risk is also known as :

Select correct option:

**Diversifiable Risk**

Market Risk

Non-diversifiable Risk

Question # 9 of 15 ( Start time: 05:29:57 PM ) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period**

Net Present Value

Profitability Index

Internal Rate of Return

Question # 10 of 15 ( Start time: 05:30:21 PM ) Total Marks:

1 Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments**

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 ( Start time: 05:30:58 PM ) Total Marks: 1

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

None of the given options

Question # 12 of 15 ( Start time: 05:31:49 PM ) Total Marks: 1

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Select correct option:

**Relevant Cash Flows**

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 14 of 15 ( Start time: 05:32:39 PM ) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of 0.0075 ?

Select correct option:

**0.08660**

0.09101

0.09487

0.10521

Question # 15 of 15 ( Start time: 05:33:12 PM ) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

Inflation risk premium

**Default risk premium**

Taxability premium

Question # 1 of 15 ( Start time: 03:08:45 PM ) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

**Rs. 330,000 not sure**

Rs. 470,000

Question # 4 of 15 ( Start time: 03:11:23 PM ) Total Marks: 1

The relationship between real and nominal returns is described by the: Select correct option:

M&M Proposition

Capital Asset Pricing Model

**Fisher's Effect**

BCG Matrix

Question # 5 of 15 ( Start time: 03:12:03 PM ) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand?

Select correct option:

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

Question # 6 of 15 ( Start time: 03:13:39 PM ) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%?

Select correct option:

6.02%

**7.55%**

10.0%

14.3%

**$(1+r)/(1+h)$**

**$1.14/1.06=1.07$**

**$1.07*100=107.55$**

**$107.55-100=7.55$**

Question # 10 of 15 ( Start time: 03:16:02 PM ) Total Marks: 1

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. 100 million. What percent of the firm's financing is debt ?

Select correct option:

**28.57%**

50.00%

62.50%

70.00%

**$250/350*100-100=28.57$**

Question # 13 of 15 ( Start time: 03:18:22 PM ) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a distribution around its mean ?

Select correct option:

Probability distribution

The expected return

**The standard deviation**

Coefficient of variation

Question # 14 of 15 ( Start time: 03:19:51 PM ) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Select correct option:

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 ( Start time: 03:21:16 PM ) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

**independent project**

dependent project

contingent project

Question # 1 of 15 ( Start time: 02:04:33 PM ) Total Marks: 1

Which of the following is the most common capital budgeting technique? Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

Question # 2 of 15 ( Start time: 02:05:04 PM ) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs. 500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ? Select

correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

**Rs. 545,000**

Question # 3 of 15 ( Start time: 02:05:57 PM ) Total Marks: 1

Which of the following formula is used to calculate the price of a zero growth stock? Select correct option:

**$P_0 = D / R$**

$P_0 = D_0 (1+g) / R$

$P_0 = D_0(1+g) / (R - g)$

$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 ( Start time: 02:07:26 PM ) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ? Select correct option:

Preferred stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity

**Cost of preferred stock can be estimated by using firm's bond ratings**

Cost of preferred stock can be estimated by observing the required return on other similarly rated shares of preferred stock

Question # 5 of 15 ( Start time: 02:09:00 PM ) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent**

None of the given options

Question # 6 of 15 ( Start time: 02:09:28 PM ) Total Marks: 1

\_\_\_\_\_ paid by corporation is tax deductible but \_\_\_\_\_ paid are not tax deductible.

Select correct option:

**Interest; dividend**

Dividend; interest

Bonus; interest

None of the given options

Question # 8 of 15 ( Start time: 02:10:43 PM ) Total Marks: 1

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

**Sunk**

Opportunity

Fixed

Variable

Question # 10 of 15 ( Start time: 02:11:32 PM ) Total Marks: 1

Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third.

The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

Question # 12 of 15 ( Start time: 02:12:30 PM ) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return? Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR

An

investment is acceptable if its AAR is less than a benchmark AAR None of the

**given options**

Question # 13 of 15 ( Start time: 02:14:04 PM ) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

**Rs. 8.93**

$$7/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 ( Start time: 02:15:46 PM ) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Select correct option:

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

---

**ACC 501 Quiz Conference**

**lecture**

**This Mcqs for Final Term**

**1. Which of the following is an example of positive covenant?**

Select correct option:

Maintaining firm's working capital at or above some specified minimum level  
Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

**2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?**

ratio?

Select correct option:

0.101

0.220

0.667

**0.818**

**Reference:  $(1-0.45=0.55)$**

**$=0.45/0.55=0.818$**

**3. What amount a borrower would pay at the end of fourth year with a 4-year,**

**12%, interest-only loan of Rs. 8,000?**

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

**Reference:  $8000*12/100=8960$**

**4. What will be the price per share if there is a current dividend of Rs. 4.75,**

**required rate of return of 12% and growth rate of 5%?**

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

**Reference:  $D*1+g/r-g$**

**$4.75*(1+0.5/4.75-0.5)=71.25$**

**5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent.**

**What**

**is the compounding period?**

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

**Reference:  $(1+APR/m)^m-1$**

APR=9

M=30

$(1+9/30)^{30}-1=9.38$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be

elected. How much votes Mr. Aslam would have as per cumulative voting

procedure?

Select correct option:

100 votes

200 votes

300 votes

400 votes

Reference:  $100 \times 4 = 400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year.

If this policy is to continue indefinitely, what will be the value of a share of

stock at a 15% required rate of return?

Select correct option:

Rs. 30

Rs. 40

Rs. 50

Rs. 60

Reference:  $6/0.15 = 40$

8. Which of the following process can be defined as the process of generating

earnings from previous earnings?

Select correct option:

Discounting

Compounding

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell

an asset?

Select correct option:

Market Value

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and

percentages in the report?

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash

flows are Rs. 4 million in the first year and Rs. 9 million in the second and

Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

15. When a corporation wishes to borrow from public on a long-term basis, it

does so by issuing or selling:

Select correct option:

**Debt securities or bonds pg 71**

- Common Stocks
- Preferred Stock
- All of the given options

16. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds 85**

- Zero coupon bonds
- Floating-rate bonds
- Euro bonds

17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

Select correct option:

- Low; higher
- High; lower
- High; higher pg 88**
- None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer. When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. Between the two identical bonds having different coupon, the price of \_\_\_\_\_ the

\_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

Select correct option:

- Higher-coupon; lower-coupon
- Lower-coupon; higher-coupon
- Long-term; short-term**
- None of the given options

20. As the dividend is always same for a zero growth stock, so the stock can also

be viewed as:

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. The coupon rate of a floating-rate bond is capped and upper and lower rates

are called:

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the

following formula(s) can be used to find the dividend in two periods?

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

$$D_2 = D_0 \times (1 + g)^2$$

$$D_2 = D_0 \times (1 + g)^2$$

**All of the given options pg 92**

24. A project whose acceptance does not prevent or require the acceptance of

one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV

for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it

reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

Select correct option:

- Positive
- Negative pg 80**
- Neutral
- None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

- Cash flows are conventional
- Cash flows are independent
- Cash flows are both conventional and independent pg 110**
- None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

- Repayment
- Seniority
- Call provision**
- Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

- Most widely used
- Ideal to rank the mutually exclusive investments pg 116**
- Easily communicated and understood
- Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

Select correct option:

- Primary Market
- Secondary Market pg 100**
- Tertiary Market
- None of the given options

33. A model which makes an assumption about the future growth of dividends is

known as:

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present

Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria

for capital budgeting decisions?

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

**39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

**41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

**42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates \_\_\_\_\_ than short term rates reflected by an upward term structure.**

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

**44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate**

**if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

**45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300**

**Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be**

**the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

**Which of the following is NOT a determinant of term structure?**

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

48. In which type of the market, securities are originally sold to the investors?

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at

a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds  
Euro bonds

**52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required**

**return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

**53. Which of the following comes under the head of accounting criteria for**

**capital budgeting decision?**

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

**54. Which of the following is a series of constant cash flows that occur at the end**

**of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

**55. Which of the following term refers to the difference between the present**

**value of cash inflows and the present value of cash outflows?**

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

**56. One would be indifferent between taking and not taking the investment**

**when:**

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero pg 104 doubt ask question in mdb**

NPV is less than Zero  
All of the given options

**57. Which one of the following terms refers to the risk arises for bond owners**

**from fluctuating interest rates?**

Select correct option:

Fluctuations Risk  
**Interest Rate Risk pg75**  
Real-Time Risk  
Inflation Risk

**58. All else equal, the market value of a corporate bond is always inversely**

**related to its:**

Select correct option:

Time to maturity  
Coupon rate  
Yield to maturity  
**All of the given options**

**59. Which of the following issue is NOT covered by “Investment” area of**

**finance?**

Select correct option:

Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets

**60. Period costs include which of the following?**

Select correct option:

**Selling expense**  
Raw material

Direct labor  
Manufacturing overhead

61. **Product costs include which of the following?**

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

62. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin  
Total Assets Turnover  
**Debt-equity ratio**  
None of the given options

63. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow  
Capital spending  
Change in net working capital  
**All of the given options**

64. **Which of the following refers to the cash flows that result from the firm's**

**day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**  
Investing Cash Flows  
Financing Cash Flows  
All of the given options

65. **Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research  
Product Pricing  
Design of marketing and distribution channels  
**All of the given options**

66. Which of the following costs are reported on the income statement as the **cost**

**of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year.

**During**

**that time, average receivables were Rs. 150,000. Assuming a 365-day year,**

**what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt **financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are **traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term **creditors?**

Select correct option:

Liquidity Ratios  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been**

**spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This**

**transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity  
Investing activity  
Financing activity  
None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio  
**Acid-test Ratio**  
Cash Ratio

74. **of the following statement measures performance over a specific period of**

**time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Retained Earning Statement

75. **Which of the following statement shows assets, liabilities, and net worth as**

**a specific date?**

Select correct option:

- Income Statement
- Balance Sheet**
- Owner's Equity Statement
- Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

- Dividends
- Retained Earnings**
- Capital Gain
- None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

- Current Ratio
- Quick Ratio
- Cash Coverage Ratio**
- Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

- Profit Margin**
- Return on Assets
- Return on Equity
- Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**80. Which of the following is measured by profit margin?**  
Select correct option:

**Operating efficiency**

- Asset use efficiency
- Financial policy
- Dividend policy

**81. Who of the following make a broader use of accounting information?**  
Select correct option:

Accountants

**Financial Analysts**

- Auditors
- Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**84. which of the following is not a form of business organization**  
Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**  
Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**86. The accounting definition of income is:**  
Select correct option:

Income = Current Assets - Current Liabilities  
Income = Fixed Assets - Current Assets  
Income = Revenues - Current Liabilities  
**Income = Revenues - Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**  
Select correct option:

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**  
Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**  
Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**  
Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**  
Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**  
Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

98. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This

transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the

company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution=  $700000/460000=1.52$

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnerhsip

Corporation

102. **a firm uses cash to purchase inventory, its current ratio will:**  
Select correct option:
- Increase
  - Decrease
  - Remain unaffected**
  - Become zero
103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**  
Select correct option:
- Ordinary Annuity**
  - Special Annuity
  - Annuity Due
  - Perpetuity
104. **Which of the following is an example of positive covenant?**  
Select correct option:
- Maintaining any collateral or security in good condition**
  - Limiting the amount of dividend according to some formula
  - Restricting pledging assets to other lenders
  - Barring merger with another firm
105. **Which of the following refers to the difference between the sale price and cost of inventory?**  
Select correct option:
- Net loss
  - Net worth**
  - Markup
  - Markdown
106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**  
Select correct option:
- Repayment
  - Seniority
  - Call provision**
  - Protective covenants

107. \_\_\_\_\_ shows the sources from which cash has been generated

and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

- Common Stocks
- Preferred Stock
- All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

- Inventory
- Supplies
- Machinery
- Depreciation**

**114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

- Rs. 300,000
- Rs. 500,000
- Rs. 800,000**
- Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

- Sole-proprietorship
- General Partnership
- Limited Partnership
- Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

- sole proprietorship
- partnership
- joint stock company
- none of the above**

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

122. Which of the following statement about bond ratings is TRUE?  
Select correct option:  
Bond ratings are typically paid for by a company's bondholders.  
Bond ratings are based solely on information acquired from sources other than the bond issuer.  
**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**  
None of the given options
123. Which of the following is the acronym for GAAP?  
Select correct option:  
Generally Applied Accountability  
Principles General Accounting Assessment  
Principles  
**Generally Accepted Accounting Principles**  
General Accepted Assessment Principles
124. Which of the following is NOT an internal use of financial statements information?  
Select correct option:  
**Planning for the future through historic information**  
Evaluation of performance through profit margin and return on equity  
Evaluation of credit standing of new customer  
**None of the given options**
125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?  
Select correct option:  
12 %  
25 %  
**40 %**  
60 %

**Solution**

Net income-dividend / net income \*100

$$250000-150000/250000*100=40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.  
Select correct option:

- Positive**  
Negative  
zero

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

128. **Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

129. **You just won a prize, you can either receive Rs. 1000 today or Rs.**

**1,050 in one year. Which option do you prefer and why if you can earn 5**

**percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage  
None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$$6000(1+5\%)^{10.51} \approx 10,000$$

132. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition  
Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago.**

**The ending balance in the account is Rs. 4,100. If interest was compounded,**

**how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$$4100 - 3000 = 1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

7.00 percent

**7.12 percent**

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison  
Evaluation

140. **Which of the following is measured by profit margin?**  
Select correct option:

**Operating efficiency pg 44**

Asset use efficiency  
Financial policy  
Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**  
Select correct option:

2% to 8%  
4% to 25%  
**5% to 20%**  
10% to 50%

142. **Which of the following refers to a conflict of interest between principal and agent?**  
Select correct option:

Management Conflict  
Interest Conflict  
**Agency Problem**  
None of the given options

143. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**  
Select correct option:

**Ordinary annuity 63**

Annuity due  
Perpetuity  
None of the given options

144. **Which of the following area of finance deals with stocks and bonds?**  
Select correct option:  
Financial institutions

International finance

**Investments**

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?  
Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?  
Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?  
Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?  
Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?  
Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:  
Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?  
Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.  
Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm  
Select correct option:

I and II

**I and III**

II and IV  
I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share.

The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :  
Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

$ROTA = N.P / \text{Total Assets}$

$4\% = N.P / 500,000$

$4\% * 500,000 = N.P$

$N.P = Rs. 20,000$

$N.P \text{ Margin} = N.P / \text{Sales}$

$5\% = 20,000 / \text{Sales}$

$5\% * \text{Sales} = 20,000$

$\text{Sales} = 20,000 / 5\%$

$\text{Sales} = 400,000$

160. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if

bought at its current market price and held to maturity

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

162. **If a firm uses cash to purchase inventory, its quick ratio will:**

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

163. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero

## *ACC501 3 Finalterm Papers and Important MCQS Solved...*

### **FINALTERM EXAMINATION Paper 1**

**Question No: 1 ( Marks: 1 ) - Please choose one**

The accounting definition of income is:

- ▶  $\text{Income} = \text{Current Assets} - \text{Current Liabilities}$
- ▶  $\text{Income} = \text{Fixed Assets} - \text{Current Assets}$
- ▶  $\text{Income} = \text{Revenues} - \text{Current Liabilities}$
- ▶  $\text{Income} = \text{Revenues} - \text{Expenses}$  pg 17

**Question No: 2 ( Marks: 1 ) - Please choose one**

What would be the capital spending for an organization who has purchased fixed assets of Rs. 200,000 and sold fixed assets of Rs. 45,000?

- ▶ Rs. 245,000
- ▶ Rs. 200,000
- ▶ Rs. 155,000

► Rs. 45,000

200000-  
45000=155000

**Question No: 3 (Marks: 1) - Please choose one**

Selected information from SNT Company's accounting records is as follows:

- o Cash paid to retired common shares Rs. 15,000
- o Proceeds from issuance of preferred shares Rs. 20,000
- o Cash dividends paid Rs. 8,000

o Proceeds from sale of equipment Rs. 25,000  
On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

- ▶ Rs. 3,000 net cash inflow
- ▶ Rs. 3,000 net cash outflow
- ▶ Rs. 8,000 net cash inflow
- ▶ Rs. 8,000 net cash inflow

**Question No: 4 ( Marks: 1 ) - Please choose one**

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the company?

- ▶ Rs. 45,000
- ▶ **Rs. 15,000**
- ▶ (Rs. 45,000)
- ▶ (Rs. 15,000)

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following would not improve the current ratio?

- ▶ Borrow short-term to finance additional fixed assets
- ▶ **Issue long-term debt to buy inventory**
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following are incorporated into the calculation of the Du -Pont Identity?

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

▶ I, II, and III only

▶ I, III, and IV only

▶ **II, III and IV only pg 45**

▶ I, II, III, 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

Debenture is an unsecured bond for which no specific pledge of property is made

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following type of return refers to the percentage change in the amount of money you have?

▶ **Nominal return**

▶ Real return

▶ Inflation return

▶ None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

**Question No: 11 ( Marks: 1 ) - Please choose one**

When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

▶ Low; higher

▶ High; lower

▶ High; higher

▶ None of the given options

When real rate is high, all interest rates will tend to be higher and vice versa.

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is the extra yield that investors 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**

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as **taxability premium**

**Question No: 13 ( Marks: 1 ) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

▶ Primary Market

▶ Secondary Market pg 100

▶ Tertiary Market

▶ None of the given options

**Secondary Market**

The market in which previously issued securities are traded among

investors

**Question No: 14 (Marks: 1) - Please choose one**

Place the following items in the proper order of completion regarding the capital budgeting process.

- (I) Perform a post-audit for completed projects;
- (II) Generate project proposals;
- (III) Estimate appropriate cash flows;
- (IV) Select value-maximizing projects;
- (V) Evaluate projects.

▶ II, V, III, IV, and I

▶ III, II, V, IV, and I

▶ **II, III, V, IV, and I**

▶ II, III, IV, V, and I

<http://wps.pearsoned.co.uk/wps/grader>

**Question No: 15 (Marks: 1) - Please choose one**

An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

▶ Accepted; rejected

▶ Accepted; accepted

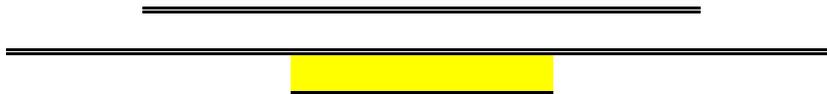
▶ Rejected; rejected

▶ **Rejected; accepted** pg 109

**Question No: 16 (Marks: 1) - Please choose one**

IRR and NPV rules always lead to identical decisions as long as :

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- ▶ Cash flows are conventional
- ▶ Cash flows are independent
- ▶ Cash flows are both conventional and independent
- ▶ None of the given options

**Question No: 17 (Marks: 1) - Please choose one**

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

- ▶ A mutually exclusive project
- ▶ An independent project
- ▶ A dependent project
- ▶ A contingent project

**Question No: 18 (Marks: 1) - Please choose one**

Finding Net Present Value comes under which type of capital budgeting criteria ?

- ▶ Discounted Cash Flow Criteria pg 118
- ▶ Accounting Criteria
- ▶ Payback Criteria
- ▶ None of the given options

**Question No: 19 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by

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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

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required rate of return on SNT stock?

- ▶ 9.00 percent
  - ▶ 9.14 percent
  - ▶ 9.33 percent
  - ▶ 10.65 percent
- 

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

- ▶ The right to vote for directors
- ▶ **The right to share proportionately in dividend paid**
- ▶ The right to vote on stockholder matters of great importance ▶ All

of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which one of the following typically applies to preferred stock but not to common stock?

- ▶ Dividend yield
- ▶ **Cumulative dividends**
- ▶ Voting rights
- ▶ Tax deductible dividends

**Question No: 25 ( Marks: 1 ) - Please choose one**

You must own which of the following to vote against a merger proposal from another corporation?

- ▶ Preferred share
- ▶ A debenture
- ▶ **Common stock**
- ▶ Cumulative dividend stock

**Question No: 26 ( Marks: 1 ) - Please choose one**

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

- ▶ **To maintain a high ratio of current assets to sales**
- ▶ To maintain a low ratio of current assets to sales
- ▶ To maintain less short-term debt and more long-term debt
- ▶ To maintain more short-term debt and less long-term debt

Size of investments in current assets

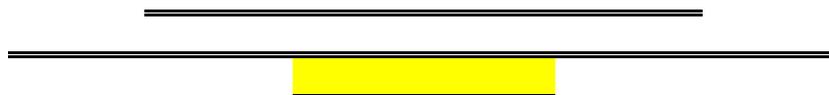
- Flexible policy
- **maintain a high ratio of current assets to sales**
- Restrictive policy
- **maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- **less short-term debt and more long-term debt**
- Restrictive policy
- **more short-term debt and less long-term debt**

If policies  
**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following strategy belongs to flexible policy regarding financing of



current assets ?

- ▶ To maintain a high ratio of current assets to sales
- ▶ To maintain a low ratio of ~~current assets to sales~~
- ▶ **To maintain less short-term debt and more long-term debt**
- ▶ To maintain more short-term debt and less long-term debt

**Question No: 28 ( Marks: 1 ) - Please choose one**

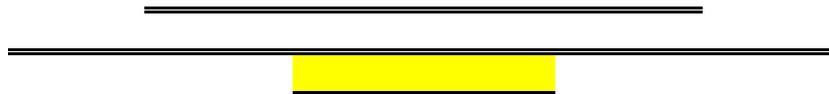
Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

- ▶ **Rs. 4,000**
- ▶ + Rs. 2,000
- ▶ Rs. 2,000
- ▶ + Rs. 4,000

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

- ▶ Stock Bundle
- ▶ Portfolio
- ▶ Capital Structure
- ▶ None of the given options



**Question No: 31 ( Marks: 1 ) - Please choose one**

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

- ▶ Probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

**Question No: 32 ( Marks: 1 ) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

- ▶ 5.3%
- ▶ 194.2%
- ▶ 83.11%
- ▶ 94.2%

**Question No: 33 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, he received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. As per given information, what will be his total percentage return ?

- ▶ 10 %
- ▶ 20 %

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▶ 35 %

▶ 45 %

**Dividend yield =  $2/20=0.1\%$**

**Capital gain yield =  $(25-20)/20=0.25\%$**

**Total percentage return  $0.1+0.25*100=35\%$**

#### **Question No: 34 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working 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

Operating cash  
flow - change in  
NWC - Capital  
spending  
 $225000 - (-40000) -$   
 $100000 = 165000$

#### **Question No: 35 ( Marks: 1 ) - Please choose one**

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is debt?

▶ **37.50%**

▶ 50.00%

▶ 62.50%

▶ 70.00%

$$250+150=400$$

$$250/400=0.625$$

0.625\*100=62.5 is equity and

100-62.5=37.5 is debt

**Question No: 36 ( Marks: 1 ) - Please choose one**

Suppose a firm 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%

$$R_D \times (1$$

$$- T_c).$$

$$7\% \times (1-$$

$$0.34) = 4$$

$$.62$$

**Question No: 37 ( Marks: 1 ) - Please choose one**

Opportunity losses from having inadequate inventory are termed as:

▶ Carrying costs

▶ Opportunity costs

▶ Restocking costs

▶ Safety reserve costs

**Restocking costs** - costs of placing an order with suppliers or the cost of setting up a production run

• **Safety reserve costs** - opportunity losses from having inadequate inventory e.g. lost sales and goodwill

• A trade-off

• Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

• The goal of inventory management is to minimize the sum of these two costs

**Question No: 38 (Marks: 1) - Please choose one**

What 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

▶ **69 units**

▶ 89 units

▶ 95 units

$$EOQ = (2T \times F / CC)^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

**Question No: 39 (Marks: 1) - Please choose one**

The cost of common equity for a firm is:

▶ The required rate of return on the company's stock

▶ The yield to maturity on the bond

▶ **The risk-free rate**

▶ The market risk premium

**Question No: 40 ( Marks: 1 ) - Please choose one**

A firm has 3 million in 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**

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

- ▶ Rs. 20,350
- ▶ Rs. 30,919
- ▶ **Rs. 36,919**

▶ Rs. 80,350  
 $50350 - 30000 = 20350 \times 34\% = 6919$   
 $30000 + 6919 = 36919$

**Question No: 42 ( Marks: 1 ) - Please choose one**

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)**

Write down the components of total return in terms of dividend growth model.

Answer

$$R = D_1/P_0 + g$$

This tells us that the total return, R, has two components

□  $D_1/P_0$  is called the **Dividend Yield**. Because this is calculated as the expected cash dividend by the

current price, it is conceptually similar to the current yield on a bond

□ Growth rate, g, is also the rate at which the stock price grows. So it can be interpreted as **capital gains yield**

**Question No: 44 (Marks: 3)**

What is the difference between operating cycle and cash cycle?

The operating cycle is the sum of the inventory and receivable periods

Operating cycle = Inventory period + Receivable period

**Cash cycle**

• The time between cash disbursement and cash collection. (We spend cash on day 30, but don't collect until

day 105. so we have to arrange finances \$1,000 for  $105 - 30 = 75$  days)

• So we can describe the cash cycle as:

Cash cycle = Operating cycle - Accounts payable period

75 days = 105 days - 30 days

**Question No: 45 (Marks: 3)**

How a firm's overall cost of capital is calculated?

We know that a firm's overall cost of capital will reflect the required return on the firm's assets as a whole.

• Given that a firm uses both debt and equity capital, this overall cost of capital will be a mixture of the returns needed to compensate its creditors and stockholders.

- Cost of capital will reflect
- Cost of equity capital
- Cost of debt capital  
Cost of Equity

**Question No: 46 (Marks: 5)**

Define the following terms:

(i) Dealer

An agent who buys and sells securities from a maintained inventory

It stands ready to buy securities from investors wishing to sell them and sells securities to investors

wishing to buy them

(ii) Broker

An agent who arranges security transactions among investors, matching investors wishing to buy securities with investors wishing to sell securities

They do not buy or sell securities for their own accounts. Facilitating trades others is their business

(iii) Bid Price

(iv) Strike Price

The price that the dealer wishes to pay is the bid price and the price at which the dealer sells the securities is called the strike price.

(v) Spread

The difference between the bid and ask price is called the 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 :

Debentures = Rs. 5.00 Billion

Preferred shares	=	Rs. 2.65 Billion
Common shares	=	Rs. 9.35 Billion
Total	=	Rs. 17 Billion

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) need s one of two machines. Machine X costs Rs. 25,000 and has cash flow s of Rs. 8,000 a year for six years. Machine Y costs Rs. 30,000 and has cash flow s Rs. 7,000 a year for six years. SMC has 12% cost of capital. Calculate each machine s Payback Period and NPV (N et Present Value) and evaluate the results.

**Paper 2**

**Question No: 1 (Marks: 1) - Please choose one**

Which of the following is the difference between current assets and current? Liabilities?

- ▶ Surplus Asset
- ▶ Short-term Ratio
- ▶ **Working Capital**
- ▶ Current Ratio

**Question No: 2 (Marks: 1) - Please choose one**

A business owned by a single person is known as:

- ▶ Sole-proprietorship
- ▶ General partnership
- ▶ Limited partnership



- ▶ Corporation

**Question No: 3 (Marks: 1) - Please choose one**

In a common-size balance sheet, all items are shown as a percentage of:

- ▶ Total Assets
- ▶ Total Liabilities
- ▶ Total Owners Equity
- ▶ None of the given options

**Question No: 4 (Marks: 1) - Please choose one**

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

- ▶ Liquidity Ratio
- ▶ Solvency Ratios  
pg 34
- ▶ Asset Management Ratios
- ▶ Market Value Ratios

**Question No: 5 (Marks: 1) - Please choose one**

According to Du Pont Identity, ROE is affected by which of the following?

- ▶ Operating efficiency
- ▶ Asset use efficiency
- ▶ Financial Leverage
- ▶ All of the given options

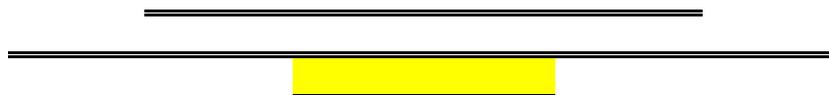
The Du Pont identity tells us that ROE is affected by three things:

Operating efficiency (as measured by profit margin)

Asset use efficiency  (as measured by total assets turnover)

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Financial Leverage (as measured by equity multiplier)

**Question No: 6 (Marks: 1) - Please choose one**

Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of

periods is called an ordinary  
**Annuity**

**Question No: 7 (Marks: 1) - Please choose one**

A portion of profits, which a company distributes among its shareholders, is known as:

- ▶ Dividends
- ▶ Retained Earnings
- ▶ Capital Gain
- ▶ Interest

**Question No: 8 (Marks: 1) - Please choose one**

What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 3,000?

- ▶ Rs. 360
- ▶ Rs. 2,000
- ▶ Rs. 3,000
- ▶ **Rs. 3,360**

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**Question No: 9 (Marks: 1) - Please choose one**

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

- ▶ 3 percent
- ▶ 6 percent
- ▶ 9 percent
- ▶ 12 percent



**Question No: 10 (Marks: 1) - Please choose one**

Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

- ▶ More than
- ▶ Less than
- ▶ Equal to
- ▶ None of the given options

**Question No: 11 (Marks: 1) - Please choose one**

When corporations borrow, they generally promise to:

- I. Make regular scheduled interest payments
- II. Give the right of voting to bondholders
- III. Repay the original amount borrowed (principal)
- IV. Give an ownership interest in the firm

- ▶ I and II

- ▶ I and III

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- ▶ II and IV
- ▶ I, III, and IV

**Question No: 12 (Marks: 1) - Please choose one**

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

- ▶ Repayment
- ▶ Seniority
- ▶ **Call provision**
- ▶ Protective covenants

**Question No: 13 (Marks: 1) - Please choose one**

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

- ▶ Rs. 30
- ▶ Rs. 45
- ▶ Rs. 60
- ▶ **Rs. 75**

$$9/0.12=75$$

**Question No: 14 (Marks: 1) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

Primary Market

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Secondary Market

Tertiary Market

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

**Question No: 16 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 17 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding a normal project ?

If the IRR of a project is greater than the discount rate,  $k$ , then its PI will be

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greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

**Question No: 18 (Marks: 1) - Please choose one**

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

**Relevant Cash Flows**

Incremental Cash Flows

Negative Cash Flows

All of the given options

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following is NOT a problem while determining incremental cash flows?

**Merchandise cost**

Sunk cost

Opportunity cost

None of the given options

**Question No: 20 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

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Sunk

Opportunity

Fixed

Variable

**Question No: 21 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

The cost of common equity and the cost of debt pg  
146

The cost of common equity and the cost of preferred stock The  
cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 22 (Marks: 1) - Please choose one**

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative**  
pg100

These stocks hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

**Question No: 23 (Marks: 1) - Please choose one**

Mr. A, as a financial consultant, has prepared a feasibility report of a project for

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XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

Sunk cost

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

**Question No: 24 ( Marks: 1 ) - Please choose one**

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

**NPV is equal to Zero**

NPV is less than Zero

All of the given options

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return**

**Average Accounting Return**

- AAR is a measure of accounting profit relative to book value
  - AAR rule is to take an investment if its AAR exceeds a benchmark

**Question No: 26 ( Marks: 1 ) - Please choose one**

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Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets

The firm s cost of debt

**The firm s stockholders pg 153**

The firm s debt-equity ratio

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

**Business Risk** found  
on internet

Functional Risk

None of the given options

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**Question No: 29**

**( Marks: 1 ) - Please choose one**

Which of the following type of risk influences a large number of assets ?

**Systematic Risk**

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

•If we always receive exactly what we expect then the investment will be risk-free.

•Systematic Risk

•A risk that influences a large number of assets. It is also called market risk

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

**Strike call in a company pg**

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**Question No: 31 ( Marks: 1 ) - Please choose one**

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

**Probability distribution**

The expected return

The standard deviation

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Coefficient of variation

**Question No: 32 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

**Rs. 250**

Rs. 1,000

Rs. 1,350

$50 \times 20 = 1000$

$50 \times 25 = 1250$

$1250 - 1000 = 250$

**Question No: 33 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

**Rs. 200,000**

Rs. 215,000

Rs. 230,000

$2050000 -$

$(+50000)$

$200000$

**Question No: 34 ( Marks: 1 ) - Please choose one**

Autos & computers are included in which of the following MACRS property

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class?

3-year

5-year

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

**Question No: 35 ( Marks: 1 ) - Please choose one**

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

15.00%

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**Question No: 36 ( Marks: 1 ) - Please choose one**

Trade credit is more likely to be granted if:



The selling firm has a cost advantage over other lenders

The selling firm can engage in price discrimination

The selling firm can obtain favorable tax treatment

All of the given options

Trade Credit is more likely to be granted if:

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- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
  - Excess capacity



**Question No: 37 ( Marks: 1 ) - Please choose one**

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

**Rs. 1,940**

Rs. 2,000

Rs. 2,100

**Question No: 38 ( Marks: 1 ) - Please choose one**

Shortage or Restocking costs \_\_\_\_\_ with inventory levels

Rise

Decline

Remain unaffected

None of the given options

Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

**Question No: 39 ( Marks: 1 ) - Please choose one**

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Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

**Transaction motive**

Precautionary motive

Personal motive

**Speculative Motive** - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

• Reserve borrowing utility and Marketable securities

• **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities

associated with a firm's ongoing operations.

**Question No: 40 ( Marks: 1 ) - Please choose one**

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

0.08944

0.09101

0.09487

0.10521

**Question No: 41 ( Marks: 1 ) - Please choose one**

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the debt to capitalization ratio?

20%

33%

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40%

67%

**Question No: 42 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition. pg 149**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 (Marks: 3)**

Define Net Present Value (NPV) and write down the NPV rule to accept a project.

**Question No: 44 (Marks: 3)**

What do you mean by the terms of business risk and financial risk?

**Question No: 45 (Marks: 3)**

Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

**Question No: 46 (Marks: 5)**

A replacement project has an initial investment of Rs.10,000; and cash flows are Rs.3,400; Rs. 2,500; Rs.3,900; and Rs.5,200 for years 1 through 4, respectively. The

firm has decided to assume that the appropriate cost of capital is 10%. What will be the net present value of the project? Is the project feasible?

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**Question No: 47 (Marks: 5)**

Describe the relationship between capital structure and weighted average cost of capital (WACC).

**Question No: 48 (Marks: 10)**

The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

Year	Cash flow rs	
	Project A	Project B
1	30000	30000
2	30000	30000
3	35000	20000
4	25000	30000
5	25000	250000

Calculate Internal Rate of Return (IRR) for both projects. On the basis of findings in (i):

- a. Which project should be selected if projects are mutually exclusive?
- b. Which project or projects should be selected if projects are independent

**Question No: 49 (Marks: 10)**

Identify the sources and uses of cash and complete the table by following the example.

Example	Increase	Source
Increasing current liabilities		
1. Increasing fixed asset		
2. Decreasing equity		
3. Increasing long-term debt		
4. Decreasing fixed assets		
5. Increasing current assets other than cash		

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6. Increasing equity
7. Decreasing long-term debt
8. Decreasing current assets other than cash
9. Accounts Payable go up by Rs. 1,500
10. Accounts receivable go up by Rs. 2,000

### Paper 3

#### FINAL TERM EXAMINATION

armaan.makhani@gmail.com

#### Question No: 1 (Marks: 1) - Please choose one

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

#### **The Agency Problem**

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency

costs

#### Question No: 2 (Marks: 1) - Please choose one

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

Analysis

Structuring

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Budgeting

Liquidity pg 14

**Question No: 3 (Marks: 1) - Please choose one**

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

**Administrative expenses**

**Question No: 4 (Marks: 1) - Please choose one**

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

**Question No: 5 (Marks: 1) - Please choose one**

Which of the following is CORRECT regarding the present value discount factor?

It is always greater than 1.0

It decreases as the discount rate increases

It is equal to zero when discount rate is zero

**It increases as the time period increases**

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**Question No: 6 (Marks: 1) - Please choose one**

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

**Question No: 7 (Marks: 1) - Please choose one**

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

**Question No: 8 (Marks: 1) - Please choose one**

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which earns 8.75 percent compounded annually and second is the savings account B, which earns 8.50 percent compounded monthly. Which account should you choose and why?

Account A; because it has a higher effective annual rate

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Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

**Question No: 9 (Marks: 1) - Please choose one**

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

**Question No: 10 (Marks: 1) - Please choose one**

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

pg  
78

Corporations payment of interest on debt is fully tax deductible.

**Question No: 11 (Marks: 1) - Please choose one**

The relationship between real and nominal returns is described by the:

M&M Proposition

Capital Asset Pricing Model

Fisher's Effect

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BCG Matrix

**Question No: 12 (Marks: 1) - Please choose one**

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

**Default risk premium**

Taxability premium

Interest rate risk premium

Inflation risk premium

**Question No: 13 (Marks: 1) - Please choose one**

For which type of stocks, the dividends grow at a constant rate?

**Zero Growth Stocks pg 91**

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options



**Question No: 14 (Marks: 1) - Please choose one**

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

Straight Voting

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Statutory Voting

Cumulative Voting

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

**Question No: 16 (Marks: 1) - Please choose one**

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

**Strike Price**     pg 100

Complex Price

**Question No: 17 (Marks: 1) - Please choose one**

Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

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2.6 Years

**3.1 Years**

3.6 Years

4.1 Years

**Question No: 18 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI)** pg

119

**Question No: 20 (Marks: 1) - Please choose one**

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Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

**Question No: 21 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

Sunk

**Opportunity**

Fixed

Variable

**Question No: 22 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

**The cost of common equity and the cost of debt**

The cost of common equity and the cost of preferred

stock The cost of preferred stock and the cost of debt

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The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 23 ( Marks: 1 ) - Please choose one**

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

**By 10 percent each year**

At a constant rate

By a decreasing amount

At a decreasing rate

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding Average Accounting Return?

**AAR is a rate that makes the NPV equal to zero**

AAR is a measure of accounting profit relative to book value

**An investment is acceptable if its AAR is greater than a benchmark AAR**

None of the given options  
worn questions

**Question No: 25 ( Marks: 1 ) - Please choose one**

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

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1<sup>st</sup> proposition

2<sup>nd</sup> proposition

3<sup>rd</sup> proposition

None of the given options

**Question No: 26 ( Marks: 1 ) - Please choose one**

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

**18.33%**

20.98%

$$25\%/75\%=0.33$$

$$16\%+(16\%-9\%) \times 0.33$$

$$0.16+(0.16-0.09) \times 0.33$$

$$0.16+0.0231=18.31\%$$

**Question No: 27 ( Marks: 1 ) - Please choose one**

Which of the following activities decreases cash ?

Increasing current liabilities

Decreasing long term debt

Decreasing fixed assets

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Increasing equity  
Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
  - Increasing fixed assets

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

**Operating Cycle**

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
  - Converted to cash when we collect from the sale

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

**Accounts receivable period** pg 164

Collection period

Accounts payable period

**Question No: 30 ( Marks: 1 ) - Please choose one**

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Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000  
+ Rs. 2,000  
**Rs. 2,000**  
+ Rs. 4,000



**Question No: 31 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%  
21.84%  
22.50%  
25.13%

**Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following statement(s) is (are) true regarding Return on Investment?



One of the responsibilities of the financial manager is to assess the value of the proposed investment

The return consists of income earned and capital gain

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The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

**Question No: 33 (Marks: 1) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

**Question No: 34 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

**Rs. 330,000**

Rs. 470,000

**Question No: 35 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

Rs. 70,000

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RS 230000

Rs. 370,000  
correct

Rs. 470,000  
300000-  
70000=230000

**Question No: 36 ( Marks: 1 ) - Please choose one**

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34% ?

Rs. 19,040

Rs. 36,960

Rs. 56,000

Rs. 800,000  
 $800000 * 7\% = 56000$   
 $56000 * 34\% = 19040$

**Question No: 37 ( Marks: 1 ) - Please choose one**

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

Precautionary motive

Personal motive

•Precautionary

Motive - the need to hold cash as a safety margin to act as a financial reserve

Note: Solve these papers by yourself

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**Question No: 38 ( Marks: 1 ) - Please choose one**

Suppose market value exceeds book value by Rs. 225,000. What will be the aftertax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

Rs. 148,500

Rs. 191,000

Rs. 225,000

$$225000 * 34\% = 76500$$
$$225000 - 76500 = 148500$$



**Question No: 39**

**( Marks: 1 ) - Please choose one**

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15  
%

25  
%

35  
%

50  
%

$$(27-18)/18=0.5\%$$

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**Question No: 40 (Marks: 1) - Please choose one**

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

**Question No: 41 (Marks: 1) - Please choose one**

Standard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

**Investment B is less volatile than Investment**

**A**

Investment B is more volatile than Investment A

**Question No: 42 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

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**Financial leverage must affect the overall cost of capital in any condition.**

Financial leverage may not affect the overall cost of capital.

**Question No: 43 (Marks: 3)**

What is the difference between dealer and broker ?

**Question No: 44 (Marks: 3)**

What does Static Theory of Capital Structure state?

**Question No: 45 (Marks: 3)**

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

**Question No: 46 (Marks: 5)**

What is the difference between Leverage and Un-levering?

**Question No: 47 (Marks: 5)**

Match the capital budgeting techniques are given in Column A to the criteria in Column B. Provide the correct answer in Column C.

Column A	Column B	Column C
Net Present Value	Discounted Cash Flow Criteria	
Average Accounting Return	Payback Criteria	
Payback Period	Discounted Cash Flow Criteria	
Internal Rate of Return	Accounting Criteria	

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**Question No: 48 (Marks: 10)**

Each of the following mutually exclusive investment projects involves an initial outlay of Rs. 240,000. The company's required rate of return is 11 percent. The estimated net cash flows for the projects are as follows:

Year	Cash flow rs	
	Project A	Project B
1	140000	20000
2	80000	40000
3	60000	60000
4	20000	100000
5	20000	180000

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

**Question No: 49 (Marks: 10)**

Consider the following chronological events:

Day	Activity	Cash effect
0	Acquire inventory on credit	None
35	Pay for inventory	Rs 5000
70	Sell inventory on credit	None
110	Collect on sale	+Rs 6000

From the given information, find out:

- (i) inventory period
- (ii) Accounts receivable period
- (iii) Accounts payable period
- (iv) Operating cycle
- (v) Cash cycle

Acc501 lec 1 to 40  
 1<sup>st</sup> Feb. to 2<sup>nd</sup> Feb

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The next dividend for a company is Rs. 6 per share. The stock current price is Rs. 57 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5% ?

Select correct option:

12.88%

13.07%

14.22%

**15.53%**

$$D1 = D0 \times (1 + g)$$

$$RE = D1 / P0 + g$$

$$6 \times (1 + 0.05) = 6.3$$

$$6.3 / 57 + 0.05 = 16\%$$

Which of the following is the time period between the acquisition of inventory and the collection of cash from receivables

**Select correct option**

Operating Cycle pg 164

Cash Cycle

Current Cycle

None of the given options

Question # 2 of 15 ( Start time: 04:07:41 PM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ? Select correct option:

Operating Cycle

Cash Cycle

Current Cycle

**None of the given options**

Question # 6 of 15 ( Start time: 04:10:23 PM ) Total Marks: 1

Business risk depends on which of the following risk of the firm's assets ? Select correct option:

**Systematic Risk pg 155**

Diversifiable Risk

Unsystematic Risk

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None of the given options

Question # 8 of 15 ( Start time: 04:11:30 PM ) Total Marks: 1

What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs ?

Select correct option:

Value of the firm increases and WACC decreases

Value of the firm decreases and WACC increases

**Value of the firm and WACC both are not affected pg 158**

Capital structure have to do nothing with value of the firm and WACC

Question # 13 of 15 ( Start time: 04:14:19 PM ) Total Marks: 1

Sources of cash always involve \_\_\_\_\_ a liability (or equity) account or \_\_\_\_\_ an asset account.

Select correct option:

**increasing; decreasing pg 163**

decreasing; increasing

increasing; increasing

decreasing; decreasing

Question # 14 of 15 ( Start time: 03:41:38 PM ) Total Marks: 1

Which of the following refers to the use of borrowed money to increase the return on equity of an investment purchase ?

Select correct option:

**Financial Leverage**

Operating Leverage

Structural Leverage

None of the given options

Question # 1 of 15 ( Start time: 02:20:49 PM ) Total Marks: 1

The value of the firm's cash flows (or the value of the firm) is \_\_\_\_\_ when the WACC is \_\_\_\_\_.

Select correct option:

minimized; minimized

maximized; maximized

**maximized; minimized pg 149**

None of the given options

Question # 5 of 15 ( Start time: 02:22:43 PM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is debt ?

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Select correct option:

20%

**33%**

40%

67%

Ref:

$4+2=6$

$4/6=0.66$

$0.66*100=66.67$  is equity and

$100-67=33$  is debt

Question # 7 of 15 ( Start time: 02:24:51 PM ) Total Marks: 1

Which of the following risk is associated with the unique circumstances of a particular company ?

Select correct option:

Financial Risk

**Business Risk**

Functional Risk

None of the given options

Question # 10 of 15 ( Start time: 02:27:15 PM ) Total Marks: 1

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

Select correct option:

The required return of firm's assets

The firm's cost of debt

**The firm's stockholders pg 153**

The firm's debt-equity ratio

Question # 13 of 15 ( Start time: 02:29:40 PM ) Total Marks: 1

Which of the following is the difference between the current assets and the current liabilities ?

Select correct option:

Net difference

**Net working capital**

Current ratio

Net available capital

Question # 1 of 15 ( Start time: 02:38:01 PM ) Total Marks: 1

Operating cycle = \_\_\_\_\_

Select correct option:

Collection period - accounts payable period

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Inventory period - accounts receivable period

**Inventory period + accounts receivable period pg 164**

Inventory period + account payable period

Question # 2 of 15 ( Start time: 02:39:24 PM ) Total Marks: 1 A firm's capital structure may include which of the following ? Select correct option:

Common stocks

**Preferred Stocks not sure**

Bonds

All of the given options

Question # 14 of 15 ( Start time: 02:46:33 PM ) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock sells for Rs. 28. As per given information, what will be the capital gains yield ? Select correct option:

15.85%

25.10%

**27.27%**

45.00%

Capital gain yield formula

$(28-22)/22$

$=0.2727$

Question # 15 of 15 ( Start time: 02:48:05 PM ) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ? Select correct option:

Leverage

Levering

**Un-levering pg 152**

Loaning

Question # 1 of 15 ( Start time: 11:23:11 AM ) Total Marks: 1

Which of the following activities does not increase cash ? Select correct option:

Increasing current liabilities

Increasing equity

**Increasing current assets other than cash pg 163**

Decreasing fixed assets

Question # 3 of 15 ( Start time: 11:25:12 AM ) Total Marks: 1

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The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

Financial Risk pg 155

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 ( Start time: 11:27:05 AM ) Total Marks: 1 What will happen to cash cycle if payable period is lengthened ? Select correct option:

Cash cycle increases

**Cash cycle decreases 167**

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 ( Start time: 11:28:03 AM ) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

**1st proposition pg 153**

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 ( Start time: 11:29:12 AM ) Total Marks: 1

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 equity ?

Select correct option:

33.33%

50.00%

**62.50%**

85.00%

$$=250+150=400$$

$$250/400=62.5 \text{ equity and remaining } 37.5 \text{ is debt}$$

Question # 8 of 15 ( Start time: 11:30:35 AM ) Total Marks: 1

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

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Select correct option:

Probability distribution

**The expected return**

The standard deviation

Coefficient of variation

Question # 10 of 15 ( Start time: 11:32:28 AM ) Total Marks: 1

Cash cycle = \_\_\_\_\_

Select correct option:

Inventory period - accounts receivable period

Inventory period + accounts receivable period

Inventory period + account payable period

**Operating cycle - accounts payable period** pg 165

Question # 12 of 15 ( Start time: 11:33:22 AM ) Total Marks: 1

According to which of the following theory, the firm's capital structure is determined by a trade-off of the value of tax shields against the costs of bankruptcy.

Select correct option:

M&M Proposition

Modern theory of bankruptcy costs

**Static theory of capital structure** not sure

Dividend growth theory

Question # 13 of 15 ( Start time: 11:34:55 AM ) Total Marks: 1 The

cost of common equity for a firm is:

Select correct option:

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 # 14 of 15 ( Start time: 11:36:17 AM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

**Investment A is more volatile than Investment B**

Investment B is more volatile than Investment A

Question # 1 of 15 ( Start time: 11:42:21 AM ) Total Marks: 1

Which of the following is the time between receipt of inventory and payment for it ?

Select correct option:

Operating Cycle

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Cash Cycle

Current Cycle

**None of the given options** pg 165

Question # 4 of 15 ( Start time: 11:47:38 AM ) Total Marks: 1

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

**WACC (Weighted Average Cost of Capital) 146**

AAR (Average Accounting Return)

Question # 5 of 15 ( Start time: 11:49:02 AM ) Total Marks: 1

What will happen to cash cycle if inventory and receivable periods get longer ?

Select correct option:

**Cash cycle increases** pg 167

Cash cycle decreases

Cash cycle remain unaffected

Cash cycle has to do nothing with inventory and receivable periods

**Standard deviations for Investment A and Investment B are 15% and 32% respectively. This indicates that :**

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 9 of 15 ( Start time: 11:52:21 AM ) Total Marks: 1

Which of the following term refers to the use of personal borrowing to alter the degree of financial leverage ?

Select correct option:

Un-levering

**Homemade leverage** pg 151

Levering

Loaning

Question # 10 of 15 ( Start time: 11:53:13 AM ) Total Marks: 1

Which of the following is the return that firm's creditors demand on new borrowings ? Select correct option:

**Cost of debt** pg 143

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Cost of preferred stock  
Cost of common equity  
Cost of retained earnings

Question # 13 of 15 ( Start time: 11:55:21 AM ) Total Marks: 1

A firm's equity is worth 4 million and its debt is worth 2 million. What is the percentage of firm's financing that is equity ?

Select correct option:

20%

33%

40%

**67%**

$$4+2=6$$

$$4/6=0.67$$

Question # 14 of 15 ( Start time: 11:56:50 AM ) Total Marks: 1

Under what situation, we can safely say that one capital structure is better than the other ? Select correct option:

If it results in a higher weighted average cost of capital

**If it results in a lower weighted average cost of capital**      pg 149

If it results in a lower value of the firm

Capital structure has to do nothing with weighted average cost of capital

**Finished last quiz of acc 501**

**Good bye all V U students**

**Badal pe chalta hu mai**

**Ghirta sambhalta hu mai**

**Khuwshin krta hu mai**

**Khony se darta hu mai**

**Jaga na soya hu mai**

**Musafir khoya hu mai**

**Kch sir fira sa hu mai**

**Budhu zara sa hu mai.....**

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Starting lec 1 to 35 Date :19-jan-2011

ACC 501 Quiz Conference lecture 1 to 35

Question # 5 of 15 ( Start time: 10:55:09 PM )

Total Marks: 1

Suppose market value exceeds book value by Rs. 200,000. What will be the after-tax proceeds if

there is a tax rate of 35 percent ?

Select correct option:

Rs. 97,500

Rs. 105,600

**Rs. 130,000**

Rs. 150,000

$$200000 * 35\% = 70000$$

$$200000 - 70000 = 130000$$

Question # 9 of 15 ( Start time: 02:23:24 PM ) Total Marks: 1

In which type of projects, the unequal lives of the projects do affect the analysis ? Select correct option:

Mutually exclusive

Dependent

Independent

Correlated

Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

Select correct option:

10.63%

20.20%

35.12%

**41.30%**

First find dividend yield then capital gain yield then plus both answer

Let see

$$\text{Dividend yield} = 1.50/23 = 0.06521\%$$

$$\text{Capital gain yield} = (31-23)/23 = 0.3478\%$$

$$\text{Total percentage return} = 0.06521 + 0.3478 * 100 = 41.30$$

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The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

Rs. 15,000

Rs. 15,220

Rs. 20,327

**Rs. 25,425**

Which one of the following statement is INCORRECT regarding MACRS depreciation ?

Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

**Annual depreciation remains constant every year even by using different rates.**

The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.

Total portfolio risk is equal to :

Select correct option:

systematic risk plus non-diversifiable risk

unsystematic risk plus diversifiable risk

systematic risk plus market risk

**systematic risk plus diversifiable risk**

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

**11.36%**

21.12%

40.00%

**d.y = 2.50/22 = 0.1136%**

Question # 1 of 15 ( Start time: 09:05:41 PM ) Total Marks: 1

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Which of the following type of risk can be eliminated by diversification ?

Select correct option:

Systematic Risk

Market Risk

**Unsystematic Risk**

None of the given options

Which of the following is the return that firm's creditors demand on new borrowings ? Select correct option:

**Cost of debt**

Cost of preferred stock

Cost of common equity

Cost of retained earnings

None of the given options

What will be the risk premium for a stock that has an expected return rate of 14% and a risk-free rate of 5% ?

Select correct option:

6 %

**9 %**

15 %

24%

**14-5=9**

Which of the following is NOT an example of systematic risk ?

Select correct option:

Interest Rate

Inflation

**Strike call in a company**

Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your : Select correct option:

Risk on investment

**Return on investment**

Gain on investment

loss on investment

Standard Company purchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is worth 25% of the purchase price now and it is being sold at this price. What is the vehicle's market value ?

Select correct option:

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Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

Question # 3 of 15 ( Start time: 05:24:09 PM ) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70

120

**200**

280

**4\*50=200**

Question # 4 of 15 ( Start time: 05:25:30 PM ) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ?

Select correct option:

Equipment used in research

Autos & computers

**Most industrial equipment**

All of the given options

Question # 5 of 15 ( Start time: 05:26:42 PM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

Question # 6 of 15 ( Start time: 05:27:45 PM ) Total Marks: 1

Systematic Risk is also known as :

Select correct option:

Diversifiable Risk

**Market Risk**

Residual Risk

Asset-specific Risk

Question # 7 of 15 ( Start time: 05:28:20 PM ) Total Marks: 1

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A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

$$600000 * 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 ( Start time: 05:29:04 PM ) Total Marks: 1

Unsystematic Risk is also known as :

Select correct option:

**Diversifiable Risk**

Market Risk

Non-diversifiable Risk

Question # 9 of 15 ( Start time: 05:29:57 PM ) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period**

Net Present Value

Profitability Index

Internal Rate of Return

Question # 10 of 15 ( Start time: 05:30:21 PM ) Total Marks: 1

Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments**

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 ( Start time: 05:30:58 PM ) Total Marks: 1

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

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None of the given options

Question # 12 of 15 ( Start time: 05:31:49 PM ) Total Marks: 1

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

Select correct option:

**Relevant Cash Flows**

Incremental Cash Flows

Negative Cash Flows

All of the given options



Question # 14 of 15 ( Start time: 05:32:39 PM ) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of 0.0075 ?

Select correct option:

**0.08660**

0.09101

0.09487

0.10521

Question # 15 of 15 ( Start time: 05:33:12 PM ) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

**Inflation risk premium**

**Default risk premium**

Taxability premium

Question # 1 of 15 ( Start time: 03:08:45 PM ) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

**Rs. 330,000** not sure

Rs. 470,000

Question # 4 of 15 ( Start time: 03:11:23 PM ) Total Marks: 1

The relationship between real and nominal returns is described by the:

Select correct option:

M&M Proposition

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Capital Asset Pricing Model

**Fisher's Effect**

BCG Matrix

Question # 5 of 15 ( Start time: 03:12:03 PM ) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand? Select correct option:

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

Question # 6 of 15 ( Start time: 03:13:39 PM ) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%? Select correct option:

6.02%

**7.55%**

10.0%

14.3%

**$(1+r)/(1+h)$**

**$1.14/1.06=1.07$**

**$1.07*100=107.55$**

**$107.55-100=7.55$**

Question # 10 of 15 ( Start time: 03:16:02 PM ) Total Marks: 1

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. 100 million. What percent of the firm's financing is debt ?

Select correct option:

**28.57%**

50.00%

62.50%

70.00%

**$250/350*100-100=28.57$**

Question # 13 of 15 ( Start time: 03:18:22 PM ) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a distribution around its mean ?

Select correct option:

Probability distribution

The expected return

**The standard deviation**

Coefficient of variation

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Question # 14 of 15 ( Start time: 03:19:51 PM ) Total Marks: 1

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

Select correct option:

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 ( Start time: 03:21:16 PM ) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

**independent project**

dependent project

contingent project

Question # 1 of 15 ( Start time: 02:04:33 PM ) Total Marks: 1

Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

Question # 2 of 15 ( Start time: 02:05:04 PM ) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs. 500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ? Select correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

**Rs. 545,000**

Question # 3 of 15 ( Start time: 02:05:57 PM ) Total Marks: 1

Which of the following formula is used to calculate the price of a zero growth stock?

Select correct option:

**$P_0 = D / R$**

$P_0 = D_0 (1+g) / R$

$P_0 = D_0(1+g) / (R - g)$

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$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 ( Start time: 02:07:26 PM ) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ?

Select correct option:

Preferred stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity

Cost of preferred stock can be estimated by using firm's bond ratings

Cost of preferred stock can be estimated by observing the required return on other similarly rated shares of preferred stock

Question # 5 of 15 ( Start time: 02:09:00 PM ) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as: Select

correct option:

Cash flows are conventional

Cash flows are independent

Cash flows are both conventional and independent

None of the given options

Question # 6 of 15 ( Start time: 02:09:28 PM ) Total Marks: 1

\_\_\_\_\_ paid by corporation is tax deductible but \_\_\_\_\_ paid are not tax deductible.

Select correct option:

Interest; dividend

Dividend; interest

Bonus; interest

None of the given options

Question # 8 of 15 ( Start time: 02:10:43 PM ) Total Marks: 1

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

Sunk

Opportunity

Fixed

Variable

Question # 10 of 15 ( Start time: 02:11:32 PM ) Total Marks: 1

Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

3.1 Years

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3.7 Years

4.1 Years

Question # 12 of 15 ( Start time: 02:12:30 PM ) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return?

Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR An

investment is acceptable if its AAR is less than a benchmark AAR None of the  
given options

Question # 13 of 15 ( Start time: 02:14:04 PM ) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

**Rs. 8.93**

$$5/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 ( Start time: 02:15:46 PM ) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Select correct option:

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

**Ending lec 1 to 35**

**19-Jan-02**

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**ACC 501 Quiz Conference lecture 1 to 28**

**This Mcqs for Final Term**

**1. Which of the following is an example of positive covenant?**

Select correct option:

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Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets wrong question option d is negative and all is positive example

Wrong, wrong, wrong question it is unfair discipline

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?

Select correct option:

0.101

0.220

0.667

**0.818**

Reference:  $(1-0.45=0.55)$

$=0.45/0.55=0.818$

3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

Reference:  $8000*12/100=8960$

4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

Reference:  $D*1+g/r-g$

$4.75*(1+0.05/0.12-0.05)=71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

Reference:  $(1+APR/m)^m-1$

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APR=9

M=30

$(1+9/30)^{30}-1=9.38$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

Reference:  $100*4=400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

Reference:  $6/0.15=40$

8. Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell an asset?

Select correct option:

**Market Value**

Book Value

Intrinsic Value

None of the given options

10.

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11. Which of the following financial statement shows both dollars and percentages in the report?  
Select correct option:  
Balance Sheet  
**Common-Size Statement**  
Income Statement  
Relative Statement of Equity
12. in which form of Business, owners have limited liability.  
Select correct option:  
  
sole proprietorship  
partnership  
**joint stock company**  
none of the above
13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:  
Select correct option:  
2.6 Years  
**3.1 Years**  
3.7 Years  
4.1 Years
14. Which of the following is NOT a shortcoming of Payback Rule?  
Select correct option:  
  
Time value of money is ignored  
It fails to consider risk differences  
Simple and easy to calculate  
**None of the given options pg 106**
15. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:  
Select correct option:

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**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. **When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.**

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

18. **Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. **Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

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20. As the dividend is always same for a zero growth stock, so the stock can also be viewed as:

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

$$D_2 = D_0 \times (1 + g)^2$$

$$D_2 = D_0 \times (1 + g)^2$$

**All of the given options pg 92**

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24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):  
Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?  
Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. Which of the following statement is TRUE regarding debt?  
Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.  
Select correct option:

**Income**

Zero coupon

Floating-rate

Put

28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

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Select correct option:

- Positive
- Negative pg 80**
- Neutral
- None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**  
Select correct option:

- Cash flow s are conventional
- Cash flow s are independent
- Cash flow s are both conventional and independent pg 110**
- None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

- Select correct option:
- Repayment
  - Seniority
  - Call provision**
  - Protective covenants

**31. Which of the following is NOT a quality of IRR?**

- Select correct option:
- Most widely used
  - Ideal to rank the mutually exclusive investments pg 116**
  - Easily communicated and understood
  - Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

- Select correct option:
- Primary Market
  - Secondary Market pg 100**
  - Tertiary Market
  - None of the given options

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33. A model which makes an assumption about the future growth of dividends is known as:

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

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**Net Present Value**

Internal Rate of Return

Profitability Index

**39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

**41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

**42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**43. Expectation of a \_\_\_\_ inflation rate will push long term interest rates \_\_\_\_ than short term rates reflected by an upward term structure.**

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

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44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

46. Which of the following is NOT an important feature of treasury notes and bonds?

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

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Interest rate risk

47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q.z

48. In which type of the market, securities are originally sold to the investors?

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

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Floating-rate bonds

Euro bonds

52. An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

56. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero** pg 104 doubt ask question in mdb

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NPV is less than Zero  
All of the given options

57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?

Select correct option:

Fluctuations Risk  
**Interest Rate Risk pg75**  
Real-Time Risk  
Inflation Risk

58. All else equal, the market value of a corporate bond is always inversely related to its:

Select correct option:

Time to maturity  
Coupon rate  
Yield to maturity  
**All of the given options**

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ACC 501 Quiz Conference lecture 1 to 18  
This Mcqs for Midterm

59. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets

60. Period costs include which of the following?

Select correct option:

**Selling expense**  
Raw material

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Direct labor  
Manufacturing overhead

61. **Product costs include which of the following?**

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

62. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin  
Total Assets Turnover  
**Debt-equity ratio**  
None of the given options

63. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow  
Capital spending  
Change in net working capital  
**All of the given options**

64. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**  
Investing Cash Flows  
Financing Cash Flows  
All of the given options

65. **Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research  
Product Pricing  
Design of marketing and distribution channels  
**All of the given options**

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66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

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Liquidity Ratios  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity  
Investing activity  
Financing activity  
None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio  
**Acid-test Ratio**  
Cash Ratio

74. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Retained Earning Statement

75. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

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Select correct option:

Income Statement  
**Balance Sheet**  
Owner's Equity Statement  
Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends  
**Retained Earnings**  
Capital Gain  
None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio  
Quick Ratio  
**Cash Coverage Ratio**  
Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**  
Return on Assets  
Return on Equity  
Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

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**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

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**84. which of the following is not a form of business organization**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities  
Income = Fixed Assets - Current Assets  
Income = Revenues - Current Liabilities  
**Income = Revenues - Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

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Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

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### Depreciation

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100



**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

### Payback Period lec 28

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

### Selling expense

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

### Current Assets > Current Liabilities

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

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97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

98. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution=  $700000/460000=1.52$

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnership

Corporation

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102. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. Which of the following refers to the difference between the sale price and cost of inventory?

Select correct option:

Net loss

**Net worth**

Markup

Markdown

106. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

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107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

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Common Stocks  
Preferred Stock  
All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

Inventory  
Supplies  
Machinery  
**Depreciation**



**114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

Rs. 300,000  
Rs. 500,000  
**Rs. 800,000**  
Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership  
**Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**none of the above**

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117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known

as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

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122. Which of the following statement about bond ratings is TRUE?  
Select correct option:  
Bond ratings are typically paid for by a company's bondholders.  
Bond ratings are based solely on information acquired from sources other than the bond issuer.  
**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**  
None of the given options
123. Which of the following is the acronym for GAAP?  
Select correct option:  
Generally Applied Accountability Principles  
General Accounting Assessment Principles  
**Generally Accepted Accounting Principles**  
General Accepted Assessment Principles
124. Which of the following is NOT an internal use of financial statements information?  
Select correct option:  
**Planning for the future through historic information**  
Evaluation of performance through profit margin and return on equity  
Evaluation of credit standing of new customer  
**None of the given options**
125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?  
Select correct option:  
12 %  
25 %  
**40 %**  
60 %

**Solution**

$$\frac{\text{Net income} - \text{dividend}}{\text{net income}} * 100$$

$$\frac{250000 - 150000}{250000} * 100 = 40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

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None of the given options

126. A portion of profits, which a company distributes among its shareholders, is known as:

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

128. Which of the following ratios is NOT from the set of Asset Management Ratios?

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

129. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

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**Financial Leverage**

Manufacturing Leverage

None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$$6000(1+5\%)^{10.51}=\text{around } 10,000$$

132. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

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135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$$4100-3000=1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

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Comparison

Evaluation

140. Which of the following is measured by profit margin?

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

141. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

142. Which of the following refers to a conflict of interest between principal and agent?

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

143. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

144. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

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International finance

**Investments**

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

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Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

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II and IV  
I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

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159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :  
Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

160. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

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162. If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

163. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero

**Note:** Solve these papers by yourself

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Date :25-11-2010

ACC 501 Quiz Conference lecture 1 to 18

1. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

2. **Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

3. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

4. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

5. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

6. **Which of the following refers to the cash flows that result from the firm’s day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**7. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

**8. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

**9. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

**10. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**11. In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market  
Tertiary market  
None of the given options

12. **Which of the following ratios are particularly interesting to short-term creditors?**  
Select correct option:

Liquidity Ratios  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

13. **shows the sources from which cash has been generated and how it has been spent during a period of time?**  
Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement

14. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**  
Select correct option:

Operating activity  
Investing activity  
Financing activity  
None of the given options

15. **me: Quick Ratio is also known as:**  
Select correct option:

Current Ratio  
**Acid-test Ratio**  
Cash Ratio

16. **of the following statement measures performance over a specific period of time?**  
Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Retained Earning Statement

17. **A portion of profits, which a company retains itself for further expansion, is known as:**  
Select correct option:

Dividends

Retained Earnings  
Capital Gain  
None of the given options

18. **Net Income after taxation differs from Net Cash Flow from operations because:**  
Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement  
Non-cash items are included in the Income Statement, but not in the Cash Flow Statement  
Cash sales are shown in the Cash Flow Statement but not in the Income Statement  
Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

19. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement  
**Balance Sheet**  
Owner's Equity Statement  
Cash Flow Statement

20. **A portion of profits, which a company retains itself for further expansion, is known as:**  
Select correct option:

Dividends  
**Retained Earnings**  
Capital Gain  
None of the given options

21. **Which one of the following is NOT a liquidity ratio?**  
Select correct option:

Current Ratio  
Quick Ratio  
**Cash Coverage Ratio**  
Cash Ratio

22. **Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**  
Select correct option:

Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

**23. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**24. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**25. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**26. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**27. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative  
zero  
None of the given options

**28. which of the following is not a form of business organization**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**29. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**30. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities  
Income = Fixed Assets - Current Assets  
Income = Revenues - Current Liabilities  
**Income = Revenues - Expenses**

**31. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

**32. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600  
Rs. 148,500  
**Rs. 165,000**  
Rs. 225,000

Solution= $250000 \times 34\% = 85000$   
 $250,000 - 85000 = 165000$

33. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:  
Select correct option:

**Debt securities or bonds lec 17**

Common Stocks  
Preferred Stock  
All of the given options

34. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios  
Leverage Ratios  
Profitability Ratios  
Market Value Ratios

35. In which type of market, used securities are traded?

Select correct option:

Primary market  
**Secondary market**  
Tertiary market  
None of the given options

36. Who of the following make a broader use of accounting information?

Select correct option:

Accountants  
**Financial Analysts lec 2**  
Auditors  
Marketers

37. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**39. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**40. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**41. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**42. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

43. **Which of the following issue is NOT covered by “Investment” area of finance?**  
Select correct option:  
Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets
44. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**  
Select correct option:  
**Operating activity**  
Investing activity  
Financing activity  
None of the given options
45. **Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**  
Select correct option:  
1.01  
1.26  
1.39  
**1.52**  
**Solution=  $700000/460000=1.52$**
46. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**  
Select correct option:  
Sole-proprietorship  
**General Partnership** pg 6  
Limited Partnerhsip  
Corporation
47. **a firm uses cash to purchase inventory, its current ratio will:**  
Select correct option:  
Increase  
Decrease  
**Remain unaffected**  
Become zero
48. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**  
Select correct option:  
**Ordinary Annuity**  
Special Annuity

Annuity Due  
Perpetuity

49. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

50. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Markup

Markdown

51. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

52. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

53. **Which of the following is a cash flow from financing activity?**

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

54. **Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

55. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

56. **Which of the following relationships holds TRUE if a bond sells at a discount?**

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

57. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

58. **Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

59. **A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

60. **Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership  
**Corporation**

**61. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**none of the above**

**62. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder  
CF from Assets = CF to Stockholders - CF to Creditors  
CF to Stockholders = CF to Creditors + CF from Assets  
**CF from Assets = CF to Creditors + CF to Stockholder**

**63. The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset  
Short-term Ratio  
**Working Capital**  
Current Ratio

**64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186  
Rs. 18,256  
**Rs. 22,697**  
Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

**65. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

Income Statement  
**Balance Sheet**  
Cash Flow Statement  
Retained Earning Statement

66. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

67. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

68. **Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

69. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

70. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

### **Solution**

Net income-dividend / net income \*100

$$250000-150000/250000*100=40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

None of the given options

71. A portion of profits, which a company distributes among its shareholders, is known as:  
Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

72. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

73. Which of the following ratios is NOT from the set of Asset Management Ratios?

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.  
Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

75. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?

Select correct option:

8.42 years

**10.51 years**

15.75 years  
18.78 years  
 $6000(1+5\%)^{10.51}$ =around 10,000

77. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

78. Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

79. Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

80. Product costs include which of the following?

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

81. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

82. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

83. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

84. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

85. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

86. **Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

87. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

88. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

89. **Which of the following area of finance deals with stocks and bonds?**

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

90. **7:03 AM Which of the following is NOT an external use of financial statements information?**

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

91. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

92. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.**

What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

**Profit margin=net income/ sales\*100**  
**Profit margin=6000/100000\*100= 6%**

**93. Which of the following is the process of planning and managing a firm's long-term investments?**

Select correct option:

- Capital Structuring
- Capital Rationing
- Capital Budgeting**
- Working Capital Management

**94. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

- Operating Cash Flows**
- Investing Cash Flows
- Financing Cash Flows
- All of the given options

**95. Quick Ratio is also known as:**  
**Select correct option:**

- Current Ratio
- Acid-test Ratio**
- Cash Ratio
- None of the given options

**96. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?**

Select correct option:

- Sole-proprietorship
- Partnership**
- Corporation
- None of the given options

**97. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.**

Select correct option:

- 20%; 80%**
- 37%; 63%
- 63%; 37%
- 80%; 20%

**98. When corporations borrow, they generally promise to:** I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

99. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

101. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

102. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

- 1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.
- a. Time interest earned
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
- a. Return on short as well as long term investments
  - b. Return on equity and return on debt
  - c. Return on equity and profit margin
  - d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase
  - b. Decrease
  - c. Remain unchanged
  - d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times
  - b. 0.58 times
  - c. 0.78 times
  - d. 0.98 times

- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions
  - b. Rs.250 millions
  - c. **Rs.350 millions**
  - d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- a. 12.29%
  - b. **14.29%**
  - c. 16.29%
  - d. 18.92%

- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- a. 25 %
  - b. 35 %
  - c. 29%
  - d. 45%
- 10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?
- a. Rs.251.415 millions
  - b. Rs.261.415 millions
  - c. Rs.271.415 millions
  - d. Rs.281.415 millions

(Total marks: 10)

1. Which one of the given options involves the sale of new securities from the issuing company to general public?
- A. Secondary market
  - B. Primary market
  - C. Capital market
  - D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm

- B. Long term cash flow of the firm  
C. Profitability and long term health of the firm  
D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.  
B. The company's ability to pay debts, interest and dividends.  
C. A company's need for external financing.  
D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall  
B. Rise  
C. Remain unchanged  
D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215  
B. 2.75886  
C. 3.75886  
D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily  
B. Compounded quarterly  
C. Compounded semiannually  
D. Compounded annually
7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million  
B. b.Rs.240 million  
C. c.Rs.275 million  
D. d.Rs.290 million

8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000

*Total marks: 10*

*Choose and highlight the right option:*

- 1. ROE in DuPont identity is affected by:**
  - a. **Operating efficiency**
  - b. **Asset usage efficiency**
  - c. **Financial leverage**
  - d. **All of the given options**
  
- 2. A decrease in the percentage of net income paid out as a dividend, will increase the:**
  - a. **Return on assets ratio**

- b. *Retention ratio*
  - c. *Leverage ratio*
  - d. *Profit margin*
3. *Which of the following does not change Current ratio of a business:*
- a. *Efficient usage of current assets*
  - b. *Change in the nature of the firm*
  - c. *Change in Accounting method of the firm*
  - d. *Change in the management of the firm*
4. *Present value factor is:*
- a.  $(1+r)^t$
  - b.  $(1-r)^t$
  - c.  $1/(1+r)^t$
  - d.  $1/(1+r)^{1/t}$
5. *Depreciation expense is:*
- a. *Operating expense*
  - b. *Investing expense*
  - c. *Financing expense*
  - d. *All of the given options*
6. *Internal growth rate tell how rapidly:*
- a. *The firm grows*
  - b. *Sales of the firm grows*
  - c. *Profit of the firm grows*
  - d. *None of the given options*
7. *You can determine the number of periods (n) in a present value calculation, if you know:*
- a. *Future amount*
  - b. *Present value*
  - c. *Interest rate*
  - d. *All of the given options*
8. *Which one of the present value factor is larger?*
- a. *PV of 1 factor for 10%*
  - b. *PV of 1 factor for 12%*
  - c. *Both have the same effect*
  - d. *It cannot be determined*
9. *If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?*
- a. *5.27 years*
  - b. *6.27 years*
  - c. *7.27 years*
  - d. *7.57 years*

10. The future value of first Rs. 100 in 2 years at 8% discount is:
- a. Rs. 116.64
  - b. Rs. 111.64
  - c. Rs. 164.64
  - d. Rs. 164.61
1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?
- a. Rs.60
  - b. Rs.64
  - c. Rs.68
  - d. Rs.74
2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%.The price per share in this case would be \_\_\_\_\_.
- a. Rs.149.8
  - b. Rs.184.9
  - c. Rs.198.4
  - d. Rs.229.9
3. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?
- a. 17%
  - b. 27%
  - c. 37%
  - d. 47%
4. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast
- a. 150 votes

- b. 210 votes
- c. 240 votes
- d. 300 votes

5. \_\_\_\_\_ is the market in which already issued securities are traded among investors.

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

6. Suppose Mehran Corporation is dealing in the Automobile industry. Based on projected costs and sales, it expects that the cash flows over the 3-year life of the project will be Rs.5, 000,000 in first year, Rs.7, 000,000 in the next year and Rs.8, 000,000 in the last year. This project would cost about Rs. 10,000,000. The net present value of the project would be \_\_\_\_\_, if discount rate is assumed to be 25%.

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000
- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

The projects costs are Rs.1, 500,000. The payback period for this investment would be \_\_\_\_\_.

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

8. Suppose Z Corporation, has the present value of its future cash flows is Rs.450, 000 and the project has a cost of Rs.300, 000, then the profitability index would be \_\_\_\_\_.

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

9. Fee paid to the consultant for evaluating the project is an example of \_\_\_\_\_.

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

*Total marks: 10*

**1. Investing activities include:**

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*
- d. *Both a & c*

**2. Changes in cash from financing are "cash in" when:**

- a. *Capital is raised*
- b. *Assets increased*
- c. *Liabilities decreased*
- d. *Cash withdrawn*

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

1. The time between sale of inventory and collection of receivable.

**a account receivable**

- b operation cycle
- c inventory period
- d none of above

2. allow a bank to substitute its creditworthiness for the customer, for a fee is called \_\_\_\_\_ -

- a open bank account
- b commercial draft
- c promisory note

**d banker acceptance**

3. Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

**Investment A is more volatile than Investment B**

Investment B is more volatile than Investment A

4. find the average 2%,5%,6%,8%

a 5%

**b 5.25 %**

c 6%

d 8%

5 what is standard deviation of these averages 2%,5%, 7%

6. As the dividend is always same for a zero growth stock, so the stock can also be viewed as

7. Which of the following statement shows revenue, expense, and net worth as of a specific date?

a balance sheet

**b income statement**

c cashflow

d none of above

8. which of the following character is not a systematic risk

market risk

interest risk

inflation risk

**strike call in a company**

9. A company has a two director and 1 shareholder which hav 25 power of share the voter for director is

a 100

b150

**c50**

d25

10. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted**

11. Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

**WACC (Weighted Average Cost of Capital)**

AAR (Average Accounting Return)

12. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt**

Cost of preferred stock

Cost of common equity  
Cost of retained earnings

13. In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

**Independent**

Correlated

14. Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

Select correct option:

10.63%

20.20%

35.12%

**41.30%**

15. Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

17. Find the cash cycle inventory period is 38 days account payable period is 50 days and average account receivable period is 30 days

a. 68

**b. 18**

c. 80

1.

*Choose the Most Appropriate Answer among the given choices.*

1. The difference between the return on a risky investment and that on a risk-free investment.

- M. Risk Return
- N. **Risk Premium**
- O. Risk Factor
- P. None of the above

2. A group of assets such as stocks and bonds held by an investor.

- M. **Portfolio**
- N. Capital Structure
- O. Budget
- P. None of the above

3. If the variance or standard deviation is larger then the spread in returns will be:

- M. Less
- N. **More**
- O. Same
- P. None of the Above

4. The following risk is entirely wiped out by Diversification.

- M. Systematic Risk
- N. **Unsystematic Risk**
- O. Portfolio Risk
- P. Total Risk

5. The objective for using the concept of Diversification is to :

- M. Minimize the Risk
- N. Maximize the return
- O. **A & B**
- P. None of the Above

6. While studying the relationship in risk and return, It is commonly known that:

- M. Higher the risk, lower the return
- N. Lower the risk, higher the return
- O. **Higher the risk, higher the return**
- P. None of the above

7. This type of risk affects almost all types of assets.

M. Systematic Risk

N. Unsystematic Risk

O. Total Risk

P. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

O. 10,500

P. 7,500

Q. 10,000

R. 7,000

9. According to the given data, the Dividend yield will be:

L. 8.50 %

M. 6.25%

N. 8.00%

O. 6.67%

10. According to the given data, Total Percentage Returns will be:

L. 20%

M. 28%

N. 32%

O. 35%

11. Which one of the given options involves the sale of new securities from the issuing company to general public?

A. Secondary market

B. Primary market

C. Capital market

D. Money market

12. In financial statement analysis, shareholders focus will be on the:

A. Liquidity of the firm

B. Long term cash flow of the firm

C. Profitability and long term health of the firm

- D. Return on investment
13. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.
  - D. The company's reliance on capital leases.
14. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall
  - B. Rise
  - C. Remain unchanged
  - D. None of the given option
15. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215
  - B. 2.75886
  - C. 3.75886
  - D. 4.08998
16. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily
  - B. Compounded quarterly
  - C. Compounded semiannually
  - D. Compounded annually
17. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
18. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
19. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%

20. Nz Corporation reported earning before interest and taxes of Rs.500,000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?

- A. Rs.60,000
- B. Rs.64,000
- C. Rs.72,000
- D. Rs.74,000

1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?

- a. Rs.60
- b. Rs.64
- c. Rs.68
- d. Rs.74

2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%.The price per share in this case would be \_\_\_\_\_.

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- b. Rs.184.9
- c. Rs.198.4
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- a. 17%
- b. 27%
- c. 37%
- d. 47%

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- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

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- a. Primary market
- b. Secondary market
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- a. Rs.2, 576, 000
- b. Rs.3, 576, 000
- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
04	Rs.500,000
05	Rs.800,000
06	Rs.600,000

The projects costs are Rs.1, 500,000. The payback period for this investment would be \_\_\_\_\_.

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

8. Suppose Z Corporation, has the present value of its future cash flows is Rs.450, 000 and the project has a cost of Rs.300, 000, then the profitability index would be \_\_\_\_\_.

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

9. Fee paid to the consultant for evaluating the project is an example of \_\_\_\_\_.

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

**Select the correct option form the following choices:**

11. Treasury notes and bonds are:

- a. Default free
- b. Taxable
- c. Highly liquid
- d. All of the given options

12. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.

- a. Net present value
- b. Economic value

- c. Book value
- d. Future value

13. When real rate is high, all the interest rates tend to be \_\_\_\_\_.

- a. **Higher**
- b. Lower
- c. Constant
- d. None of the given options

14. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.

- a. Cumulative voting
- b. Straight voting
- c. **Proxy voting**
- d. None of the given options

15. The payment of the dividend is at the discretion of the:

- a. Chairman
- b. **Board of directors**
- c. Shareholders
- d. Stakeholders

16. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.

- a. Profitability index
- b. Payback period
- c. **Internal rate of return**
- d. Net present value

17. If two investments are mutually exclusive, then taking one of them means that:

- a. **We cannot take the other one**
- b. The other is pending for the next period
- c. The projects are independent
- d. None of the given options

18. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:

- a. -1
- b. 0
- c. **1**
- d. All of the given options

19. Average Accounting Return is a measure of accounting profit relative to:

- a. **Book value**
- b. Intrinsic value
- c. Cost
- d. Market value

20. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:

- a. Erosion
- b. Piracy
- c. Cannibalism
- d. **All of the given options**

1. The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale is called - \_\_\_\_\_.

**a) Operating Cycle**

- b) Cash Cycle
- c) Receivable period
- d) Inventory period

**20. Which of the following does not affect cash cycle of a company?**

- e) Inventory period
- f) Accounts receivable period
- g) Accounts payable turnover
- h) None of the given option**

**21. Mr. Munir purchased goods of Rs.100,000 on June 01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

- e) 100,000
- f) 97,000**
- g) 103,000
- h) 50,000

**22. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?**

- e) 3.347 approximately
- f) 5.347 approximately
- g) 2.347 approximately**
- h) 6.253 approximately

**23. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?**

- e) 234 days
- f) 223 days**
- g) 245 days
- h) 230 days

**24. Which of the following is the cheapest source of financing available to a firm?**

- e) Bank loan
- f) Commercial papers
- g) Trade credit**
- h) None of the given options.

**25. Which of the following illustrates the use of a hedging (or matching) approach to financing?**

- e) Short-term assets financed with long-term liabilities.
- f) Permanent working capital financed with long-term liabilities.**
- g) Short-term assets financed with equity.
- h) All assets financed with a 50 percent equity, 50 percent long-term debt mixture

**26. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.**

- e) Cash discount**
- f) Quantity discount
- g) Float discount
- h) All of the given options

**27. If a firm has a net float less than zero, then which of the following statements is true about the firm.**

- e) The firm's disbursement float is less than its collection float.**
- f) The firm's collection float is equal to zero.
- g) The firm's collection float is less than its disbursement float.
- h) None of the given options.

**28. Financing a long-lived asset with short-term financing would be**

- e) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- f) An example of "low risk -- low (potential) profitability" asset financing.
- g) An example of "high risk -- high (potential) profitability" asset financing.**
- h) An example of the "hedging approach" to financing

**Note: Correct options have been highlighted.**

11. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
- a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
12. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
- a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
13. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
- a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
14. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
- a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk
15. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000

16. A corporation has WACC of 13.5 % (excluding taxes). The current borrowing rate in the market is 9.25%. If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
17. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%. This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
18. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**
  - d) 19 days
19. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be
- a) Rs.1,000,000
  - b) Rs.1,200,000
  - c) Rs800,000**
  - d) Rs.1,400,000
20. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.
- a) Homemade leverage**
  - b) Financial leverage
  - c) Operating leverage
  - d) None of the given option

*Choose the Most Appropriate Answer among the given choices.*

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

- Q. Sunk cost
- R. **Opportunity cost**
- S. Financing cost
- T. All of the given options
2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?
- Q. 13.07 %
- R. 15.67 %
- S. 16.00 %
- T. **18.80 %**
3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.
- Q. **Portfolio**
- R. Diversification
- S. Stock Bundle
- T. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
- Q. Net Present Value (NPV)
- R. **Profitability Index (PI)**
- S. Average Accounting Return (AAR)
- T. Internal Rate of Return (IRR)
5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:
- Q. 37.5 %
- R. 47.5 %
- S. **62.5 %**
- T. 72.5 %
6. A risk that influences a large number of assets is known as:
- Q. Systematic Risk
- R. Market Risk
- S. Non-diversifiable Risk
- T. **All of the given options**
7. Which of the following risk can be eliminated by diversification?
- Q. Systematic Risk
- R. **Unsystematic Risk**
- S. A & B
- T. None of the given options

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

- S. **2.6 Years**
- T. 3.1 Years
- U. 3.6 Years
- V. 4.1 Years

9. A model which makes an assumption about the future growth of dividends is known as:

- P. Dividend Price Model
- W. **Dividend Growth Model**
- Q. Dividend Policy Model
- R. All of the given options

10. Which of the following is not a quality of IRR ?

- P. Most widely used
- X. **Ideal to rank the mutually exclusive investments**
- Q. Easily communicated and understood
- R. Can be estimated even without knowing the discount rate

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

- U. Ordinary Annuity
- V. **Perpetuity**
- W. Dividend
- X. Interest

2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?

- U. 15.00 %
- V. 15.34 %
- W. **15.87 %**
- X. 16.42 %

3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

- U. loan; receiver
- V. dividend; issuer
- W. dividend, receiver
- X. **loan; issuer**

4. When the interest rates fall, the bond is worth \_\_\_\_\_.

- U. More
- V. Less
- W. Same
- X. All of the given options.

5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?

- U. 30 %
- V. 50 %
- W. 70 %
- X. 90 %

6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:

- U. Increase Profit Margin
- V. Increase Total Assets Turnover
- W. Sell new shares
- X. All of the given options.

7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.

- U. Present Value
- V. Future Value
- W. Capital Gain
- X. Net Profit

8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?

- Y. Rs. 319.45
- Z. Rs. 390.75
- AA. Rs. 419.45
- BB. Rs. 463.75

9. The sensitivity of Interest Rate Risk of a bond directly depends upon:

- S. Time to maturity
- T. Coupon rate
- U. A and B
- V. None of the given options

10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?

- S. 8 %

T. 10 %

U. 12 %

V. 14 %

**Choose the Most Appropriate Answer among the given choices.**

**1. In the formula  $k_e \geq (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?**

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

**2. If you owned 100 shares of a company and there are three directors to be elected. How much votes you would have as per cumulative voting procedure?**

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

**4. Which of the following is NOT a characteristic of preferred stock?**

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

**5. A project has an initial investment of Rs. 400,000. What would be the NPV for the project if it has a profitability index of 1.15?**

- A. Rs. 30000
- B. Rs. 40,500
- C. Rs. 50,000
- D. Rs. 60,000**

**6. What will be the proper order of completion regarding the capital budgeting process?**

- ( I ) Perform a post-audit for completed projects;
- ( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;
- ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I**
- D. II, III, IV, V, and I

**7. Following are the two cases:**

**Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a project for ABC Company that the company is planning to undertake. He has suggested that the project is feasible.**

**Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a**

project for XYZ Company that the company is planning to undertake. He has suggested that the project is not feasible.

The consultancy fee paid to Mr. A will be considered as:

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II**
- D. Opportunity cost in both Case I and Case II

8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %**

9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B then what will be the weight of Asset B in your portfolio?

- A. 0.30
- B. 0.40
- C. 0.60**
- D. 0.75

10. Which of the following set of cash flows represents the change in the firm's total cash flow that occurs as direct result of accepting the project?

- A. Relevant Cash Flows
- B. Incremental Cash Flows**
- C. Negative Cash Flows
- D. All of the given option

*Choose the Most Appropriate Answer among the given choices.*

1. 2. Time value of money is an important finance concept because:

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

2. The present value of a sum of Rs. 100 to be received in the future will be:

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually

D. Compounding annually

5. If a bond sells at a high premium, then which of the following relationships hold true?

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

6. What will be the value to you of a Rs. 2,000 face-value bond with an 8% coupon rate when your required rate of return is 12% and time till maturity is 5 years?

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

- A. Convertible Bonds**
- B. Income Bonds
- C. Put Bonds
- D. None of the given options

8. Interest rates and bond prices :

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

10. What will be real rate if the nominal rate is 17%, and the inflation rate is 5% ?

- A. 6.639%
- B. 8.251%**
- C. 10.00%
- D. 11.43%

Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

- Sunk
- Opportunity

**Highlight the correct option:**

- 1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.
- a. **Time interest earned**
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
- a. Return on short as well as long term investments
  - b. Return on equity and return on debt
  - c. **Return on equity and profit margin**
  - d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase
  - b. **Decrease**
  - c. Remain unchanged
  - d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times
  - b. 0.58 times
  - c. **0.78 times**
  - d. 0.98 times
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %

- b. 10.414 %  
c. 11.412 %  
d. 12.414 %
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stakeholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earnings balance from current year profit?
- a. Rs.150 millions  
b. Rs.250 millions  
c. Rs.350 millions  
d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- a. 12.29%  
b. 14.29%  
c. 16.29%  
d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- a. 25 %  
b. 35 %  
c. 29%  
d. 45%
- 10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?
- a. Rs.251.415 millions  
b. Rs.261.415 millions  
c. Rs.271.415 millions  
d. Rs.281.415 millions

Choose and highlight the right option:

1. ROE in DuPont identity is affected by:
- a. Operating efficiency  
b. Asset usage efficiency  
c. Financial leverage  
d. All of the given options

2. A decrease in the percentage of net income paid out as a dividend, will increase the:
  - a. Return on assets ratio
  - b. Retention ratio
  - c. Leverage ratio
  - d. Profit margin
  
3. Which of the following does not change Current ratio of a business:
  - a. Efficient usage of current assets
  - b. Change in the nature of the firm
  - c. Change in Accounting method of the firm
  - d. Change in the management of the firm
  
4. Present value factor is:
  - a.  $(1+r)^t$
  - b.  $(1-r)^t$
  - c.  $1/(1+r)^t$
  - d.  $1/(1+r)^{1/t}$
  
5. Depreciation expense is:
  - a. Operating expense
  - b. Investing expense
  - c. Financing expense
  - d. All of the given options
  
6. Internal growth rate tell how rapidly:
  - a. The firm grows
  - b. Sales of the firm grows
  - c. Profit of the firm grows
  - d. None of the given options
  
7. You can determine the number of periods (n) in a present value calculation, if you know:
  - a. Future amount
  - b. Present value
  - c. Interest rate
  - d. All of the given options
  
8. Which one of the present value factor is larger?
  - a. PV of 1 factor for 10%
  - b. PV of 1 factor for 12%
  - c. Both have the same effect
  - d. It cannot be determined
  
9. If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?
  - a. 5.27 years
  - b. 6.27 years
  - c. 7.27 years
  - d. 7.57 years
  
10. The future value of first Rs. 100 in 2 years at 8% discount is:
  - a. Rs. 116.64
  - b. Rs. 111.64
  - c. Rs. 164.64
  - d. Rs. 164.61

Total marks: 10

1. *Investing activities include:*

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*
- d. *Both a & c*

2. *Changes in cash from financing are "cash in" when:*

- a. *Capital is raised*
- b. *Assets increased*
- c. *Liabilities decreased*
- d. *Cash withdrawn*

3. *Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:*

- a. *Cash from operations activities*
- b. *Cash from financing activities*
- c. *Cash from investing activities*
- d. *None of the given options*

4. \_\_\_\_\_ *are short-term, temporary investments that can be readily converted into cash.*

- a. *marketable securities*
- b. *Cash equivalents*
- c. *Treasury bills*
- d. *All of the given options*

5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay its financial obligations:

- a. *Management ratios*
- b. *Working capital ratios*
- c. *Net profit margin ratios*
- d. *Solvency Ratios*

10. Balance sheet items expressed as percentage of:

- a. *Net sales*
- b. *Total revenue*
- c. *Total assets*
- d. *Total liabilities*

1. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate a purchase price. Identify the parties to this transaction from the given options, keeping in view the agency theory:

- a. **Ann is the principal and Mary is the agent.**
- b. Mary is the principal and Ann is the agent.
- c. Ted is the agent and Ann is the principal.
- d. Mary is the principal and Ted is the agent.

2. Which of the given options apply to auction markets?

- a. **Trading in a given auction exchange takes place at a single site on the floor of the exchange.**
- b. **Transaction prices of shares are communicated almost immediately to the public.**
- c. **Listing.**
- d. **All of the given options (a, b and c).**

3. Suppose a Corporation has a taxable income of \$200,000 and the tax amount is as given in the calculations:

\$ 50,000	x 15%	= \$ 7,500
(\$ 75,000 – 50,000)	x 25%	= 6,250
(\$ 100,000 – 75,000)	x 34%	= 8,500
(\$ 200,000 – 100,000)	x 39%	= <u>39,000</u>
		<u>\$ 61,250</u>

Total tax is \$61,250.

Average tax rate is \$61,250 / 200,000 = 30.625%. Marginal tax rate will be:

- a. **39%**
- b. 34%
- c. 15%
- d. 25%

4. A document that includes corporation's name, intended life, business purpose and number of shares and is necessary to form a corporation is known as:

- a. **Charter**
- b. Set of bylaws
- c. Regulations paper
- d. None of the given options

5. According to the accounting profession, which of the given options would be considered a cash-flow item from an "investing" activity in a cash flow statement?

- a. Cash outflow to the government for taxes.
- b. Cash outflow to shareholders as dividends.
- c. Cash outflow to lenders as interest.
- d. **Cash outflow to purchase bonds issued by another company**

6. Which one of the given options is generally considered the most liquid asset?

- a. **accounts receivable**
- b. inventory
- c. net fixed assets
- d. intangible assets

7. Which of the given options is an advantage of a corporation that is *not* an advantage as a limited partner in a partnership?

- a. Limited liability.
- b. **Easy transfer of ownership position.**
- c. Double taxation.
- d. All of the options are advantages that the corporation has over the limited partner.

8. In finance we refer to the market for relatively long-term financial instruments as the \_\_\_\_\_ market.

- a. money
- b. **capital**
- c. primary
- d. secondary

9. \_\_\_\_\_ is concerned with the branch of economics relating the behavior of principals and their agents.

- a. Financial management
- b. Profit maximization
- c. **Agency theory**
- d. Social responsibility

10. Which of the expenses in given options is not a cash outflow for the firm?

- a. **Depreciation**
- b. Dividends
- c. Interest payments
- d. Taxes

1. A standardized financial statement presenting all items of the statement as a percentage of total is:

- a. **a common-size statement**
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress. For this purpose you will study which category of ratios of the company?

- a. Profitability Ratios
- b. Liquidity ratios
- c. Debt ratios
- d. Turnover ratios

3. Which one of the given options describes desirable current ratio for a business?

- e. 0
- f. 0.2
- g. 0.1
- h. At least one

4. Interest Coverage Ratios are also known as:

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

5. The Du Pont Identity tells us that Return on Equity is affected by:

- a. operating efficiency (as measured by profit margin)
- b. asset use efficiency (as measured by total assets turnover)
- c. financial Leverage (as measured by equity multiplier)
- d. all of the given options (a, b and c)

6. Benchmarking is used to establish a standard to follow for:

- a. comparison
- b. identification
- c. calculation
- d. liability

7. A series of constant cash flows that occur at the end of each period for some fixed number of periods is

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

8. Suppose the total cost of a college education will be \$50,000 in 12 years for a child. The Parents have \$5,000 to invest today. What rate of interest must they earn on investment to cover the cost of child's education?

- a. **21.15%**
- b. 12%
- c. 18%
- d. **30%**

9. If the bank loans out \$10,000 for 90 days at 8% simple interest, the PV is:

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

10. Suppose, you deposited an amount of Rs.1000 in Habib Bank at the start of year 2006. How much interest amount will you have at the end of the year if the bank pays simple interest @10% p.a.?

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?

- Y. Income Statement
- Z. **Balance Sheet**
- AA. Cash Flow Statement
- BB. Owner's Equity Statement

3. \_\_\_\_\_ involves the sale of used securities from one investor to another?

- Y. Primary Market
- Z. **Secondary Market**
- AA. Tertiary Market
- BB. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

- Y. **Liquidity**
- Z. Financial Leverage
- AA. Profitability
- BB. Market Value

5. The process of planning and managing a firm's long-term investments is called:

- Y. Planning Process

Z. Capital Structure

AA. **Capital Budgeting**

BB. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

Y. 6.37 %

Z. 8.37 %

AA. **15.7 %**

BB. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

Y. 8 times

Z. **9 times**

AA. 10 times

BB. 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

CC. **Total Assets**

DD. Total Liabilities

EE. Total Capital

FF. Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

W. Sole Proprietorship

X. Partnership

Y. **Corporation**

Z. None of the given options

10. Which one of these is considered as a non-cash item?

W. Inventory

X. Accounts Payable

Y. Accounts Receivable

Z. **Depreciation**

ng records is as

o Cash paid to retired common shares Rs. 15,000

o Proceeds from issuance of preferred shares Rs. 20,000

o Cash dividends paid Rs. 8,000

## EXAMINATION

### Question No: 1

The accounting definition of income is:

► Income = Current Assets

► Income = Fixed Assets -

► Income = Revenues

► **Income = Revenues - Expenses**  
pg 17

### Question No: 2

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

$200000 - 45000 = 155000$

### Question No: 3

Selected information from SNT Company's accounting records follows:

o Proceeds from sale of equipment Rs. 25,000  
On its cash flow statement for the year, SNT Company should report net cash flow from financing activities as:

- ▶ Rs. 3,000 net cash inflow
- ▶ Rs. 3,000 net cash outflow
- ▶ **Rs. 8,000 net cash inflow**
- ▶ Rs. 8,000 net cash inflow

**Question No: 4 ( Marks: 1 ) - Please choose one**

SNT Company has a current ratio of 3:2. Current Liabilities reported by the company are Rs. 30,000 . What would be the Net Working Capital for the company?

- ▶ Rs. 45,000
- ▶ **Rs. 15,000**
- ▶ (Rs. 45 ,000)
- ▶ (Rs. 15,000)

**Question No: 5 ( Marks: 1 ) - Please choose one**

Which of the following would not improve the current ratio?

- ▶ Borrow short-term to finance additional fixed assets
- ▶ **Issue long-term debt to buy inventory**
- ▶ Sell common stock to reduce current liabilities
- ▶ Sell fixed assets to reduce accounts payable

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following are incorporated into the calculation of the DuPont Identity?

- I. Return on assets
- II. Equity Multiplier
- III. Total Assets Turnover
- IV. Profit Margin

▶ I, II, and III only

▶ I, III, and IV only

▶ **II, III and IV only pg 45**

▶ I, II, III, 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

Debenture is an unsecured bond for which no specific pledge of property is made

**Question No: 10 ( Marks: 1 ) - Please choose one**

Which of the following type of return refers to the percentage change in the amount of money you have?

- ▶ **Nominal return**

- ▶ Real return

- ▶ Inflation return

- ▶ None of the given option

Your *nominal* return is the percentage change in the amount of money you have.

**Question No: 11 ( Marks: 1 ) - Please choose one**

When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

- ▶ Low; higher

- ▶ High; lower
- ▶ **High; higher**
- ▶ None of the given options  
When real rate is high, all interest rates will tend to be higher and vice versa.

**Question No: 12 ( Marks: 1 ) - Please choose one**

Which of the following is the extra yield that investors 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**  
Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as **taxability premium**

**Question No: 13 ( Marks: 1 ) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

- ▶ Primary Market
  - ▶ **Secondary Market pg 100**
  - ▶ Tertiary Market
  - ▶ None of the given options
- Secondary Market**  
The market in which previously issued securities are traded among

investors

**Question No: 14 (Marks: 1) - Please choose one**

Place the following items in the proper order of completion regarding the capital budgeting process.

- (I) Perform a post-audit for completed projects;
- (II) Generate project proposals;
- (III) Estimate appropriate cash flows; (IV) Select value-maximizing projects; (V) Evaluate projects.

▶ II, V, III, IV, and I

▶ III, II, V, IV, and I

▶ **II, III, V, IV, and I**

▶ II, III, IV, V, and I

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**Question No: 15 (Marks: 1) - Please choose one**

An investment will be \_\_\_\_\_ if the IRR doesn't exceed the required return and \_\_\_\_\_ otherwise.

▶ Accepted; rejected

▶ Accepted; accepted

▶ Rejected; rejected

▶ **Rejected; accepted pg 109**

**Question No: 16 (Marks: 1) - Please choose one**

IRR and NPV rules always lead to identical decisions as long as :

- ▶ Cash flows are conventional
- ▶ Cash flows are independent
- ▶ **Cash flows are both conventional and independent**
- ▶ None of the given options

**Question No: 17 ( Marks: 1 ) - Please choose one**

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as :

- ▶ **A mutually exclusive project**
- ▶ An independent project
- ▶ A dependent project
- ▶ A contingent project

**Question No: 18 ( Marks: 1 ) - Please choose one**

Finding Net Present Value comes under which type of capital budgeting criteria ?

- ▶ **Discounted Cash Flow Criteria pg 118**
- ▶ Accounting Criteria
- ▶ Payback Criteria
- ▶ None of the given options

**Question No: 19 ( Marks: 1 ) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by

the decision under consideration.

▶ **Sunk**

▶ Opportunity

▶ Fixed

▶ Variable

**Question No: 20 ( Marks: 1 ) - Please choose one**

Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock ?

▶ **WACC (Weighted Average Cost of Capital)**

▶ AAR (Average Accounting Return)

▶ IRR (Internal Rate of Return)

▶ MIRR (Modified Internal Rate of Return)

**Question No: 21 ( Marks: 1 ) - Please choose one**

Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

▶ **Sunk cost**

▶ Opportunity cost

▶ Both sunk cost and opportunity cost

▶ Neither sunk cost nor opportunity cost

**Question No: 22 ( Marks: 1 ) - Please choose one**

The current price of SNT stock is Rs. 50. Dividends are expected to grow at 7 percent indefinitely and the most current dividend was Rs. 1.00. What is the

required rate of return on SNT stock?

- ▶ 9.00 percent
- ▶ 9.14 percent
- ▶ **9.33 percent**
- ▶ 10.65 percent

**Question No: 23 ( Marks: 1 ) - Please choose one**

Which of the following are rights of an owner of a share of common stock for firm which has no preferred share?

- ▶ The right to vote for directors
- ▶ **The right to share proportionately in dividend paid**
- ▶ The right to vote on stockholder matters of great importance
- ▶ All of the given options

**Question No: 24 ( Marks: 1 ) - Please choose one**

Which one of the following typically applies to preferred stock but not to common stock?

- ▶ Dividend yield
- ▶ **Cumulative dividends**
- ▶ Voting rights
- ▶ Tax deductible dividends

**Question No: 25 ( Marks: 1 ) - Please choose one**

You must own which of the following to vote against a merger proposal from another corporation?

- ▶ Preferred share
- ▶ A debenture
- ▶ **Common stock**
- ▶ Cumulative dividend stock

**Question No: 26 (Marks: 1) - Please choose one**

Which of the following strategy belongs to flexible policy regarding size of investments in current assets ?

- ▶ **To maintain a high ratio of current assets to sales**
- ▶ To maintain a low ratio of current assets to sales
- ▶ To maintain less short-term debt and more long-term debt
- ▶ To maintain more short-term debt and less long-term debt

Size of investments in current assets

- Flexible policy
- **maintain a high ratio of current assets to sales**
- Restrictive policy
- **maintain a low ratio of current assets to sales**

Financing of current assets

- Flexible policy
- **less short-term debt and more long-term debt**
- Restrictive policy
- **more short-term debt and less long-term debt**

If policies

**Question No: 27 (Marks: 1) - Please choose one**

Which of the following strategy belongs to flexible policy regarding financing of

current assets ?

- ▶ To maintain a high ratio of current assets to sales
- ▶ To maintain a low ratio of current assets to sales
- ▶ **To maintain less short-term debt and more long-term debt**
- ▶ To maintain more short-term debt and less long-term debt

**Question No: 28 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your collection float ?

- ▶ **Rs. 4,000**
- ▶ + Rs. 2,000
- ▶ Rs. 2,000
- ▶ + Rs. 4,000

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

- ▶ Stock Bundle
- ▶ **Portfolio**
- ▶ Capital Structure
- ▶ None of the given options

**Question No: 31 (Marks: 1) - Please choose one**

Which of the following is referred as the ratio of the standard deviation of a distribution to the mean of that distribution ?

- ▶ Probability distribution
- ▶ **The expected return**
- ▶ The standard deviation
- ▶ Coefficient of variation

**Question No: 32 (Marks: 1) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45.

During the past year the common stock paid an annual dividend of Rs. 2.40.

The

firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

- ▶ 5.3%
- ▶ **194.2%**
- ▶ 83.11%
- ▶ 94.2%

**Question No: 33 (Marks: 1) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share.

Over

the last year, he received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. As per given information, what will be his total percentage return ?

- ▶ 10 %
- ▶ **20 %**

▶ 35 %

▶ 45 %

**Dividend yield =  $2/20=0.1\%$**

**Capital gain yield =  $(25-20)/20=0.25\%$**

**Total percentage return  $0.1+0.25*100=35\%$**

**Question No: 34 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 225,000 has been calculated. Net working 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

Operating cash  
flow - change in  
NWC - Capital  
spending  
 $225000 - (-40000) -$   
 $100000 = 165000$

**Question No: 35 ( Marks: 1 ) - Please choose one**

The total market value of a company's stocks is calculated as Rs. 250 million and the total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is debt?

▶ **37.50%**

▶ 50.00%

▶ 62.50%

▶ 70.00%

$$250+150=400$$

$$250/400=0.625$$

$0.625 \times 100 = 62.5$  is equity and

$100 - 62.5 = 37.5$  is debt

**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%

$$R_D \times (1$$

$$- T_c).$$

$$7\% \times (1 -$$

$$0.34) = 4$$

$$.62$$

**Question No: 37 ( Marks: 1 ) - Please choose one**

Opportunity losses from having inadequate inventory are termed as:

▶ Carrying costs

▶ Opportunity costs

▶ Restocking costs

▶ **Safety reserve costs**

**Restocking costs** - costs of placing an order with suppliers or the cost of setting up a production run

- **Safety reserve costs** - opportunity losses from having inadequate inventory e.g. lost sales and goodwill
- A trade-off
- Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels
  - The goal of inventory management is to minimize the sum of these two costs

**Question No: 38 ( Marks: 1 ) - Please choose one**

What 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

▶ **69 units**

▶ 89 units

▶ 95 units

$$EOQ = \frac{2T \times F}{CC}^{1/2}$$

$$2 \times 400 = 800$$

$$800 \times 30 = 24000$$

$$24000 / 5 = 4800$$

$$4800^{0.5} = 69.28$$

**Question No: 39 ( Marks: 1 ) - Please choose one**

The cost of common equity for a firm is:

- ▶ The required rate of return on the company's stock
- ▶ The yield to maturity on the bond
- ▶ **The risk-free rate**
- ▶ The market risk premium

**Question No: 40 (Marks: 1) - Please choose one**

A firm has 3 million in 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**

The book value of a system is Rs. 50,350 at the end of year 3 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 30,000 at this time? (Tax rate is 34%)

- ▶ Rs. 20,350
- ▶ Rs. 30,919
- ▶ **Rs. 36,919**
- ▶ Rs. 80,350

$$50350 - 30000 = 20350 \times 34\% = 6919$$
$$30000 + 6919 = 36919$$

**Question No: 42 (Marks: 1) - Please choose one**

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

Which of the following is the difference between current assets and current? Liabilities?

- ▶ Surplus Asset
- ▶ Short-term Ratio
- ▶ **Working Capital**
- ▶ Current Ratio

**Question No: 2 ( Marks: 1 ) - Please choose one**

A business owned by a single person is known as:

- ▶ **Sole-proprietorship**
- ▶ General partnership
- ▶ Limited partnership

- ▶ Corporation

**Question No: 3 ( Marks: 1 ) - Please choose one**

In a common-size balance sheet, all items are shown as a percentage of:

- ▶ Total Assets
- ▶ Total Liabilities
- ▶ Total Owners Equity
- ▶ **None of the given options**

**Question No: 4 ( Marks: 1 ) - Please choose one**

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

- ▶ Liquidity Ratio
- ▶ **Solvency Ratios**  
pg 34
- ▶ Asset Management Ratios
- ▶ Market Value Ratios

**Question No: 5 ( Marks: 1 ) - Please choose one**

According to Du Pont Identity, ROE is affected by which of the following?

- ▶ Operating efficiency
- ▶ Asset use efficiency
- ▶ Financial Leverage

- ▶ **All of the given options**

The Du Pont identity tells us that ROE is affected by three things:  
Operating efficiency (as measured by profit margin)  
Asset use efficiency (as measured by total assets turnover)

Financial Leverage (as  
measured by equity multiplier)

**Question No: 6 ( Marks: 1 ) - Please choose one**

Which of the following is a series of constant cash flows that occur at the end of?  
each period for some fixed number of periods?

- ▶ **Ordinary annuity**
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

A series of constant, or level, cash flows that occur at the end of each period for some fixed  
number of  
periods is called an ordinary  
**Annuity**

**Question No: 7 ( Marks: 1 ) - Please choose one**

A portion of profits, which a company distributes among its shareholders,  
is known as:

- ▶ **Dividends**
- ▶ Retained Earnings
- ▶ Capital Gain
- ▶ Interest

**Question No: 8 ( Marks: 1 ) - Please choose one**

What amount a borrower would pay at the end of fourth year with a 4 -year,  
12%, interest-only loan of Rs. 3,000?

- ▶ Rs. 360
- ▶ Rs. 2,000
- ▶ Rs. 3,000
- ▶ **Rs. 3,360**

**Question No: 9 (Marks: 1) - Please choose one**

A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

- ▶ 3 percent
- ▶ 6 percent
- ▶ 9 percent
- ▶ 12 percent

**Question No: 10 (Marks: 1) - Please choose one**

Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

- ▶ More than
- ▶ Less than
- ▶ Equal to
- ▶ None of the given options

**Question No: 11 (Marks: 1) - Please choose one**

When corporations borrow, they generally promise to:

- I. Make regular scheduled interest payments
- II. Give the right of voting to bondholders
- III. Repay the original amount borrowed (principal)
- IV. Give an ownership interest in the firm

- ▶ I and II

- ▶ I and III pg

▶ II and IV

▶ I, III, and IV

**Question No: 12 (Marks: 1) - Please choose one**

Which of the following allows a company to repurchase part or all of the bond? issue at a stated price?

▶ Repayment

▶ Seniority

▶ **Call provision**

▶ Protective covenants

**Question No: 13 (Marks: 1) - Please choose one**

Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

▶ Rs. 30

▶ Rs. 45

▶ Rs. 60

▶ **Rs. 75**

$9/0.12=75$

**Question No: 14 (Marks: 1) - Please choose one**

In which type of the market, previously issued securities are traded among investors ?

Primary Market

**Secondary Market**

Tertiary Market

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

**Question No: 16 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 17 (Marks: 1) - Please choose one**

Which of the following statement is INCORRECT regarding a normal project ?

If the IRR of a project is greater than the discount rate,  $k$ , then its PI will be

greater than 1

If the NPV of a project is greater than 0, then its PI will exceed 1

If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0

If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

**Question No: 18 (Marks: 1) - Please choose one**

Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

**Relevant Cash Flows**

Incremental Cash Flows

Negative Cash Flows

All of the given options

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following is NOT a problem while determining incremental cash flows?

**Merchandize cost**

Sunk cost

Opportunity cost

None of the given options

**Question No: 20 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

Sunk

Opportunity

Fixed

Variable

**Question No: 21 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

**The cost of common equity and the cost of debt**

**pg  
146**

The cost of common equity and the cost of preferred stock

The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 22 (Marks: 1) - Please choose one**

Which of the following is a characteristic of preferred stock?

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg100**

These stocks hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

**Question No: 23 (Marks: 1) - Please choose one**

Mr. A, as a financial consultant, has prepared a feasibility report of a project for

XYZ Company that the company is planning to undertake. He has suggested that the project is feasible. The consultancy fee paid to Mr. A will be considered as:

**Sunk cost**

Opportunity cost

Both sunk cost and opportunity cost

Neither sunk cost nor opportunity cost

**Question No: 24 (Marks: 1) - Please choose one**

One would be indifferent between taking and not taking the investment when:

NPV is greater than Zero

**NPV is equal to Zero**

NPV is less than Zero

All of the given options

**Question No: 25 (Marks: 1) - Please choose one**

Which of the following is a measure of accounting profit relative to book value?

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return**

**Average Accounting Return**

- AAR is a measure of accounting profit relative to book value
  - AAR rule is to take an investment if its AAR exceeds a benchmark

**Question No: 26 (Marks: 1) - Please choose one**

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

**1st proposition**

2nd proposition

3rd proposition

None of the given options

**Question No: 27 ( Marks: 1 ) - Please choose one**

According to 2nd M&M proposition, cost of equity does NOT depend upon which of the following ?

The required return of firm s assets

The firm s cost of debt

**The firm s stockholders pg 153**

The firm s debt-equity ratio

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following risk is associated with the unique circumstances of a particular company ?

Financial Risk

**Business Risk found  
on internet**

Functional Risk

None of the given options

**Question No: 29**

**( Marks: 1 ) - Please choose one**

Which of the following type of risk influences a large number of assets ?

**Systematic Risk**

Unsystematic Risk

Diversifiable Risk

Asset-specific risk

The true risk of an investment is the unanticipated or surprising part of the return.

•If we always receive exactly what we expect then the investment will be risk-free.

•Systematic Risk

•A risk that influences a large number of assets. It is also called market risk

**Question No: 30 ( Marks: 1 ) - Please choose one**

Which of the following is an example of unsystematic risk ?

Increasing Recession

Rise in Interest Rate

Rise in Inflation

**Strike call in a company pg 140**

**Question No: 31 ( Marks: 1 ) - Please choose one**

A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred as :

**Probability distribution**

The expected return

The standard deviation

Coefficient of variation

**Question No: 32 ( Marks: 1 ) - Please choose one**

Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

Rs. 100

**Rs. 250**

Rs. 1,000

Rs. 1,350

$50 \times 20 = 1000$

$50 \times 25 = 1250$

$1250 - 1000 = 250$

**Question No: 33 ( Marks: 1 ) - Please choose one**

While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated . Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

Rs. 170,000

**Rs. 200,000**

Rs. 215,000

Rs. 230,000

$2050000 -$

$(+50000)$

$200000$

**Question No: 34 ( Marks: 1 ) - Please choose one**

Autos & computers are included in which of the following MACRS property

class?

3-year

**5-year**

7-year

None of the given options

3-year Equipment used in research

5-year Autos, Computers

7-year Most industrial equipment

**Question No: 35 ( Marks: 1 ) - Please choose one**

The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

12.88%

13.07%

14.22%

**15.00% pg  
142**

**Question No: 36 ( Marks: 1 ) - Please choose one**

Trade credit is more likely to be granted if:

The selling firm has a cost advantage over other  
lenders

The selling firm can engage in price discrimination

The selling firm can obtain favorable tax treatment

**All of the given options**

Trade Credit is more likely to be granted if:

- The selling firm has a cost advantage over other lenders.
- The selling firm can engage in price discrimination.
- The selling firm can obtain favorable tax treatment.
- The selling firm has no established reputation for quality products or services.
- The selling firm perceives a long-term strategic relationship.
- The optimal credit policy depends on the characteristics of particular firms.
  - Excess capacity

**Question No: 37 ( Marks: 1 ) - Please choose one**

A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

Rs. 1,000

**Rs. 1,940**

Rs. 2,000

Rs. 2,100

**Question No: 38 ( Marks: 1 ) - Please choose one**

Shortage or Restocking costs                      with inventory levels

Rise

**Decline**

Remain unaffected

None of the given options  
Carrying costs increase with inventory levels and shortage or restocking costs decline with inventory levels

**Question No: 39 ( Marks: 1 ) - Please choose one**

Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing Operations?

Speculative motive

**Transaction motive**

Precautionary motive

Personal motive

**Speculative Motive** - the need to hold cash to take advantage of additional investment opportunities, such as bargain purchases, attractive interest rates and favorable exchange rate fluctuations.

• Reserve borrowing utility and Marketable securities

• **Transaction Motive** - the need to hold cash to satisfy normal disbursement and collection activities

associated with a firm's ongoing operations.

**Question No: 40 ( Marks: 1 ) - Please choose one**

What would be the standard deviation of returns for an investment that has a Variance of 0.008?

**0.08944**

0.09101

0.09487

0.10521

**Question No: 41 ( Marks: 1 ) - Please choose one**

A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the debt to capitalization ratio?

20%

33%

40%

67%

**Question No: 42 ( Marks: 1 ) - Please choose one**

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders. Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition. pg 149**

Financial leverage may not affect the overall cost of capital.

Which of the following refers to a conflict of interest between principal and agent?

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

**The Agency Problem**

Agency relationship

Principal hires an agent to represent their interest

Stockholders (principals) hire managers (agents) to run the company

Agency problem

Conflict of interest between principal and agent

Management goals and agency

costs

**Question No: 2 ( Marks: 1 ) - Please choose one**

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

Analysis

Structuring

Budgeting

**Liquidity pg 14**

**Question No: 3 (Marks: 1) - Please choose one**

Product costs do NOT include which of the following?

Raw material

Direct labor

Manufacturing overhead

**Administrative expenses**

**Question No: 4 (Marks: 1) - Please choose one**

Which of the following can be computed by using the information only from balance sheet?

Equity multiplier

Inventory turnover

Receivable turnover

Return on equity

**Question No: 5 (Marks: 1) - Please choose one**

Which of the following is CORRECT regarding the present value discount factor?

It is always greater than 1.0

It decreases as the discount rate increases

It is equal to zero when discount rate is zero

**It increases as the time period increases**

**Question No: 6** (Marks: 1) - Please choose one

How much must be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

Rs. 225

Rs. 341

Rs. 410

Rs. 452

**Question No: 7** (Marks: 1) - Please choose one

In order to compare different investment opportunities (each with the same risk) with interest rates reported in different manners you should:

Convert each interest rate to an effective annual rate

Convert each interest rate to a monthly nominal rate

Convert each interest rate to an annual nominal rate

Compare the published annual rates

**Question No: 8** (Marks: 1) - Please choose one

You have Rs. 1,000 to invest. You have 2 choices; first is the savings account A, which earns 8.75 percent compounded annually and second is the savings account B, which earns 8.50 percent compounded monthly. Which account should you choose and why?

Account A; because it has a higher effective annual rate

Account B; because it has a higher effective annual rate

Account A; because it has the higher quoted rate

Account B; because the quoted rate is higher

**Question No: 9 (Marks: 1) - Please choose one**

What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?

More than its face value

Less than its face value

Equal to its face value

Cannot be determined without more information

**Question No: 10 (Marks: 1) - Please choose one**

Which of the following statement is FALSE regarding debt?

Debt is not an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

**Debt provides the voting rights to the bondholders. pg 78**

Corporations payment of interest on debt is fully tax deductible.

**Question No: 11 (Marks: 1) - Please choose one**

The relationship between real and nominal returns is described by the:

M&M Proposition

Capital Asset Pricing Model

**Fisher s Effect**

BCG Matrix

**Question No: 12** (Marks: 1) - Please choose one

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

**Default risk premium**

Taxability premium

Interest rate risk premium

Inflation risk premium

**Question No: 13** (Marks: 1) - Please choose one

For which type of stocks, the dividends grow at a constant rate?

**Zero Growth Stocks pg 91**

Constant Growth Stocks

Non-Constant Growth Stocks

None of the given options

**Question No: 14** (Marks: 1) - Please choose one

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

Straight Voting

Statutory Voting

Cumulative Voting

None of the given options

**Question No: 15 (Marks: 1) - Please choose one**

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

**Question No: 16 (Marks: 1) - Please choose one**

Which of the following is the price that the dealer wishes to pay for a share ?

Simple Price

Bid Price

**Strike Price pg 100**

Complex Price

**Question No: 17 (Marks: 1) - Please choose one**

Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

2.6 Years

**3.1 Years**

3.6 Years

4.1 Years

**Question No: 18 (Marks: 1) - Please choose one**

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

**3.2 Years**

3.5 Years

4.0 Years

Cannot be determined from the given information

**Question No: 19 (Marks: 1) - Please choose one**

Which of the following measures the present value of an investment per dollar invested ?

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg**

**119**

**Question No: 20 (Marks: 1) - Please choose one**

Which of the following set of cash flows should be considered in the decision at hand?

Relevant Cash Flows

**Incremental Cash Flows**

Negative Cash Flows

All of the given options

**Question No: 21 (Marks: 1) - Please choose one**

\_\_\_\_\_ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

**Sunk**

Opportunity

Fixed

Variable

**Question No: 22 (Marks: 1) - Please choose one**

The overall (weighted average) cost of capital is composed of a weighted average of:

**The cost of common equity and the cost of debt**

The cost of common equity and the cost of preferred stock  
The cost of preferred stock and the cost of debt

The cost of common equity, the cost of preferred stock, and the cost of debt

**Question No: 23** (Marks: 1) - Please choose one

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

**By 10 percent each year**

At a constant rate

By a decreasing amount

At a decreasing rate

**Question No: 24** (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding Average Accounting Return?

**AAR is a rate that makes the NPV equal to zero**

AAR is a measure of accounting profit relative to book value

**An investment is acceptable if its AAR is greater than a benchmark AAR**

None of the given options  
worn questions

**Question No: 25** (Marks: 1) - Please choose one

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

1st proposition

2nd proposition

3rd proposition

None of the given options

Question No: 26 (Marks: 1) - Please choose one

SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

13.00%

15.23%

**18.33%**

20.98%

$$25\%/75\%=0.33$$

$$16\%+(16\%-9\%) \times 0.33$$

$$0.16+(0.16-0.09) \times 0.33$$

$$0.16+0.0231=18.31\%$$

Question No: 27 (Marks: 1) - Please choose one

Which of the following activities decreases cash ?

Increasing current liabilities

**Decreasing long term debt**

Decreasing fixed assets

Increasing equity  
Activities that decrease cash (uses of cash)

- Decreasing long term debt
- Decreasing equity
- Decreasing current liabilities
- Increasing current assets other than cash
  - Increasing fixed assets

**Question No: 28 ( Marks: 1 ) - Please choose one**

Which of the following describes how a product moves through the current asset accounts ?

Cash Cycle

**Operating Cycle**

Current Cycle

None of the given options

An operating cycle describes how a product moves through the current asset accounts

- It begins life as inventory
- Converted to a receivable when it is sold
  - Converted to cash when we collect from the sale

**Question No: 29 ( Marks: 1 ) - Please choose one**

Which of the following is the time between sale of inventory and collection of receivables ?

Inventory period

**Accounts receivable period pg 164**

Collection period

Accounts payable period

**Question No: 30 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

Rs. 4,000

+ Rs. 2,000

**Rs. 2,000**

+ Rs. 4,000

**Question No: 31 ( Marks: 1 ) - Please choose one**

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

18.27%

21.84%

22.50%

25.13%

**Question No: 32 ( Marks: 1 ) - Please choose one**

Which of the following statement(s) is (are) true regarding Return on Investment?

One of the responsibilities of the financial manager is to assess the value of the proposed investment

The return consists of income earned and capital gain

The dollar returns are the sum of the cash received and the change in dollar value of the asset

All of the given options

**Question No: 33 (Marks: 1) - Please choose one**

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

5.3%

194.2%

83.11%

94.2%

**Question No: 34 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are increased by Rs. 70,000?

Rs. 70,000

Rs. 230,000

**Rs. 330,000**

Rs. 470,000

**Question No: 35 (Marks: 1) - Please choose one**

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

Rs. 70,000

RS 230000

Rs. 370,000  
correct

Rs. 470,000  
300000-  
70000=230000

**Question No: 36** (Marks: 1) - Please choose one

Suppose a firm borrows Rs. 800,000 at 7%. What will be the total interest bill per year if tax rate is 34%?

**Rs. 19,040**

Rs. 36,960

Rs. 56,000

Rs. 800,000

$800000 * 7\% = 56000$

$56000 * 34\% = 19040$

**Question No: 37** (Marks: 1) - Please choose one

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

Speculative motive

Transaction motive

**Precautionary motive**

Personal motive

• **Precautionary Motive** - the need to hold cash as a safety margin to act as a financial reserve

**Question No: 38** (Marks: 1) - Please choose one

Suppose market value exceeds book value by Rs. 225,000. What will be the aftertax proceeds if there is a tax rate of 34 percent?

Rs. 105,600

**Rs. 148,500**

Rs. 191,000

Rs. 225,000

$$225000 * 34\% = 76500$$

$$225000 - 76500 = 148500$$

**Question No: 39**

(Marks: 1) - Please choose one

Suppose you have bought 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 27. As per given information, what will be the capital gains yield?

15  
%

25  
%

35  
%

**50  
%**

$$(27-18)/18=0.5\%$$

**Question No: 40** (Marks: 1) - Please choose one

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this p rice. What is the vehicle s m arket valu e ?

Rs. 14,875

**Rs. 112,500**

Rs. 337,500

Rs. 230,000

**Question No: 41** (Marks: 1) - Please choose one

Standard deviations for Investment A and Investment B are 19% and 28% respectively. This indicates that:

Investment A is more volatile than Investment B

Investment A is equally volatile to Investment B

Investment B is less volatile than Investment A

**Investment B is more volatile than Investment A**

**Question No: 42** (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

Financial leverage can dramatically alter the payoffs to the shareholders.

Financial leverage refers to the extent to which a firm relies on the debt.

**Financial leverage must affect the overall cost of capital in any condition.**

Financial leverage may not affect the overall cost of capital.

Business Finance (ACC501)

Fall Semester 2006

Solution quiz 01

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*



5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. *Actual cash income*
  - b. *Un earned income*
  - c. *Coming year income*
  - d. *Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. *Has performed in the past*
  - b. *Might perform in the future*
  - c. *Both a & b*
  - d. *None of the given options*
7. *The current ratio is also known as:*
- a. *Working capital ratio*
  - b. *Leverage ratio*
  - c. *Turnover ratio*
  - d. *None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. *Gearing*
  - b. *Acid test ratio*
  - c. *Working capital management*
  - d. *All of the given options*

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. *Management ratios*
- b. *Working capital ratios*
- c. *Net profit margin ratios*
- d. *Solvency Ratios*

10. *Balance sheet items expressed as percentage of:*

- a. *Net sales*
- b. *Total revenue*
- c. *Total assets*
- d. *Total liabilities*

**QUIZ # 01**

**SPRING SEMESTER 2007**

**ACC501 - BUSINESS FINANCE**

**Total  
Marks  
10**

## **SOLUTION**

*Most Appropriate Answer among the given choices has been chosen.*

1. \_\_\_\_\_ is considered as bottom line in Income Statement?

- E. Total Assets
- F. Total Liabilities
- G. Net Profit**
- H. Gross Profit

2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?

- E. Income Statement
- F. Balance Sheet**
- G. Cash Flow Statement

**H. Owner's Equity Statement**

3. \_\_\_\_\_ involves the sale of used securities from one investor to another?

E. Primary Market

**F. Secondary Market**

G. Tertiary Market

H. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

**E. Liquidity**

F. Financial Leverage

G. Profitability

H. Market Value

5. The process of planning and managing a firm's long-term investments is called:

E. Planning Process

F. Capital Structure

**G. Capital Budgeting**

H. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

E. 6.37 %

F. 8.37 %

**G. 15.7 %**

H. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

E. 8 times

**F. 9 times**

G. 10 times

H. 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

**E. Total Assets**

- F. Total Liabilities
  - G. Total Capital
  - H. Net Profit
9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:
- E. Sole Proprietorship
  - F. Partnership
  - G. Corporation**
  - H. None of the given options
10. Which one of these is considered as a non-cash item?
- E. Inventory
  - F. Accounts Payable
  - G. Accounts Receivable
  - H. Depreciation**

**QUIZ # 02 (Solution)**  
**SPRING SEMESTER 2007**  
**ACC501 - BUSINESS FINANCE**

**Total  
Marks  
10**

**Instructions:**

- Due Date and Time to submit the Quiz is . . .  
**Friday, Apr. 20, 2007 - - - Before 12'O Clock Midnight •**
- Quiz includes **Lecture # 11 to Lecture # 18** of your course.
- You can choose the right option by Highlighting, **Making Bold** or **Changing Color**.
- Cheating will harm you only & not to anyone else as copied quiz gets no credit.
- Quiz will not be acceptable in any way after the mentioned Date and Time.

*Most Appropriate Answer among the given choices has been selected..*

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

- I. Ordinary Annuity
  - J. Perpetuity**
  - K. Dividend
  - L. Interest
- 2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?**
- I. 15.00 %
  - J. 15.34 %
  - K. 15.87 %**
  - L. 16.42 %
- 3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**
- I. loan; receiver
  - J. dividend; issuer
  - K. dividend, receiver
  - L. loan; issuer**
- 4. When the interest rates fall, the bond is worth \_\_\_\_\_.**
- I. More**
  - J. Less
  - K. Same
  - L. All of the given options.
- 5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**
- I. 30 %
  - J. 50 %
  - K. 70 %**
  - L. 90 %
- 6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**
- I. Increase Profit Margin
  - J. Increase Total Assets Turnover
  - K. Sell new shares
  - L. All of the given options.**
- 7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**

**I. Present Value**

J. Future Value

K. Capital Gain

L. Net Profit

**8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**

I. Rs. 319.45

J. Rs. 390.75

**K. Rs. 419.45**

L. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

I. Time to maturity

J. Coupon rate

**K. A and B**

L. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

I. 8 %

J. 10 %

K. 12 %

L. 14 %

**QUIZ # 03 (SOLUTION)****SPRING SEMESTER 2007****ACC501 - BUSINESS FINANCE**

**Total  
Marks  
10**

**Instructions:**

- Due Date and Time to submit the Quiz is . . .

**Wednesday, June 13, 2007 - - - Before 12'O Clock Midnight** •

Quiz includes **Lecture # 23 to Lecture # 35** of your course.

- You can choose the right option by **Highlighting, Making Bold or Changing Color**.
- Cheating will harm you only & not to anyone else as copied quiz gets no credit.

- Quiz will not be acceptable in any way after the mentioned Date and Time.

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*Choose the Most Appropriate Answer among the given choices.*

---

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

---

- M. Sunk cost
  - N. **Opportunity cost**
  - O. Financing cost
  - P. All of the given options
- 

2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?

---

- M. 13.07 %
  - N. 15.67 %
  - O. 16.00 %
  - P. **18.80 %**
- 

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.

---

- M. **Portfolio**
  - N. Diversification
  - O. Stock Bundle
  - P. None of the given options
- 

4. Which of the following measures the present value of an investment per dollar invested?

---

- M. Net Present Value (NPV)
  - N. **Profitability Index (PI)**
  - O. Average Accounting Return (AAR)
  - P. Internal Rate of Return (IRR)
- 

5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

---

- M. 37.5 %
  - N. 47.5 %
  - O. **62.5 %**
  - P. 72.5 %
- 

6. A risk that influences a large number of assets is known as:

---

- M. Systematic Risk
-

- N. Market Risk
- O. Non-diversifiable Risk
- P. All of the given options**
7. Which of the following risk can be eliminated by diversification?
- M. Systematic Risk
- N. Unsystematic Risk**
- O. A & B
- P. None of the given options
8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:
- M. 2.6 Years**
- N. 3.1 Years
- O. 3.6 Years
- P. 4.1 Years
9. A model which makes an assumption about the future growth of dividends is known as:
- M. Dividend Price Model
- Q. Dividend Growth Model**
- N. Dividend Policy Model
- O. All of the given options
10. Which of the following is not a quality of IRR ?
- M. Most widely used
- R. Ideal to rank the mutually exclusive investments**
- N. Easily communicated and understood
- O. Can be estimated even without knowing the discount rate

**Choose the Most Appropriate Answer among the given choices.**

1. In the formula  $k_e \geq (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

2. If you owned 100 shares of a company and there are three directors to be elected. How much votes you would have as per cumulative voting procedure?

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If

this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

4. Which of the following is NOT a characteristic of preferred stock?

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

5. A project has an initial investment of Rs. 400,000. What would be the NPV for the project if it has a profitability index of 1.15?

- A. Rs. 30000
- B. Rs. 40,500
- C. Rs. 50,000
- D. Rs. 60,000**

6. What will be the proper order of completion regarding the capital budgeting process?

- ( I ) Perform a post-audit for completed projects;
  - ( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;
  - ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.
- A. II, V, III, IV, and I
  - B. III, II, V, IV, and I
  - C. II, III, V, IV, and I**
  - D. II, III, IV, V, and I

7. Following are the two cases:

Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a project for ABC Company that the company is planning to undertake. He has suggested that the project is feasible.

Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is not feasible.

The consultancy fee paid to Mr. A will be considered as:

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II**
- D. Opportunity cost in both Case I and Case II

8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %**

9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B then what will be the weight of Asset B in your portfolio?

- A. 0.30
- B. 0.40
- C. 0.60**
- D. 0.75

10. Which of the following set of cash flows represents the change in the firm's total cash flow that occurs as direct result of accepting the project?

- A. Relevant Cash Flows
- B. Incremental Cash Flows**

- C. Negative Cash Flows
- D. All of the given option

*Choose the Most Appropriate Answer among the given choices.*

1. **2. Time value of money is an important finance concept because:**
  - A. It takes risk into account
  - B. It takes time into account
  - C. It takes compound interest into account
  - D. **All of the given options**
  
2. **The present value of a sum of Rs. 100 to be received in the future will be:**
  - A. More than Rs. 100
  - B. Equal to Rs. 100
  - C. **Less than Rs. 100**
  - D. None of the given options
  
3. **You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**
  - A. **Rs. 29,454**
  - B. Rs. 34,325
  - C. Rs. 39,272
  - D. Rs. 49,023
  
4. **You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**
  - A. Compounding quarterly
  - B. **Compounding monthly**
  - C. Compounding semi-annually
  - D. Compounding annually
  
5. **If a bond sells at a high premium, then which of the following relationships hold true?**
  - A. Bond Price < Par Value and YTM > coupon rate
  - B. Bond Price > Par Value and YTM > coupon rate
  - C. **Bond Price > Par Value and YTM < coupon rate**
  - D. Bond Price < Par Value and YTM < coupon rate
  
6. **What will be the value to you of a Rs. 2,000 face-value bond with an 8% coupon rate when your required rate of return is 12% and time till maturity is 5 years?**
  - A. Rs. 1,556
  - B. **Rs. 1,712**
  - C. Rs. 2,082
  - D. Rs. 2,420
  
7. **Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?**
  - A. **Convertible Bonds**
  - B. Income Bonds
  - C. Put Bonds
  - D. None of the given options
  
8. **Interest rates and bond prices :**

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

10. What will be real rate if the nominal rate is 17%, and the inflation rate is 5% ?

- A. 6.639%
- B. 8.251%
- C. 10.00%
- D. 11.43%**

**Highlight the correct option:**

11) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

- e. Time interest earned**
- f. Cash coverage ratio
- g. Profit margin ratio
- h. None of the given option

12) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?

- e. Return on short as well as long term investments
- f. Return on equity and return on debt
- g. Return on equity and profit margin**
- h. All of the given options

13) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?

- e. Increase
- f. Decrease**
- g. Remain unchanged
- h. None of the given option

14) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?

- e. 0.38 times
- f. 0.58 times
- g. 0.78 times**
- h. 0.98 times

- 15) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- e. Rs. 2.5 million
  - f. Rs. 3 million
  - g. Rs. 3.5 million
  - h. Rs.4.5 million**
- 16) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- e. 9.414 %
  - f. 10.414 %
  - g. 11.412 %
  - h. 12.414 %**
- 17) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- e. Rs.150 millions
  - f. Rs.250 millions
  - g. Rs.350 millions**
  - h. Rs.500 millions
- 18) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- e. 12.29%
  - f. 14.29%**
  - g. 16.29%
  - h. 18.92%
- 19) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- e. 25 %**
  - f. 35 %
  - g. 29%
  - h. 45%
- 20) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?
- a. Rs.251.415 millions
  - b. Rs.261.415 millions
  - c. Rs.271.415 millions**
  - d. Rs.281.415 millions

11.ROE in DuPont identity is affected by:

- a. Operating efficiency
- b. Asset usage efficiency
- c. Financial leverage
- d. All of the given options

12. A decrease in the percentage of net income paid out as a dividend, will increase the:

- a. Return on assets ratio
- b. Retention ratio
- c. Leverage ratio
- d. Profit margin

13. Which of the following does not change Current ratio of a business:

- a. Efficient usage of current assets
- b. Change in the nature of the firm
- c. Change in Accounting method of the firm
- d. Change in the management of the firm

14. Present value factor is:

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

15. Depreciation expense is:

- a. Operating expense
- b. Investing expense
- c. Financing expense
- d. All of the given options

16. Internal growth rate tell how rapidly:

- a. The firm grows
- b. Sales of the firm grows
- c. Profit of the firm grows
- d. None of the given options

17. You can determine the number of periods (n) in a present value calculation, if you know:

- a. Future amount
- b. Present value
- c. Interest rate
- d. All of the given options

18. Which one of the present value factor is larger?

- a. PV of 1 factor for 10%
- b. PV of 1 factor for 12%
- c. Both have the same effect
- d. It cannot be determined

19. If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?

- a. 5.27 years
- b. 6.27 years
- c. 7.27 years
- d. 7.57 years

20. The future value of first Rs. 100 in 2 years at 8% discount is:

- a. Rs. 116.64
- b. Rs. 111.64
- c. Rs. 164.64
- d. Rs. 164.61

11. Investing activities include:

- a. Purchase of property, plant and equipment
- b. Cash received from the issuance of stock or equity in the business.
- c. Purchases of stock or other securities (other than cash equivalents)
- d. Both a & c

12. Changes in cash from financing are "cash in" when:

- a. Capital is raised
- b. Assets increased
- c. Liabilities decreased
- d. Cash withdrawn

13. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:

- a. Cash from operations activities
- b. Cash from financing activities
- c. Cash from investing activities
- d. None of the given options

14. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.

- a. marketable securities
- b. Cash equivalents
- c. Treasury bills
- d. All of the given options

- a. Time interest earned  
b. Cash coverage ratio  
c. Profit margin ratio  
d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?  
a. Return on short as well as long term investments  
b. Return on equity and return on debt  
c. Return on equity and profit margin  
d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?  
a. Increase  
b. Decrease  
c. Remain unchanged  
d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?  
a. 0.38 times  
b. 0.58 times  
c. 0.78 times  
d. 0.98 times

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- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?  
a. Rs. 2.5 million  
b. Rs. 3 million  
c. Rs. 3.5 million  
d. Rs.4.5 million
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.  
a. 9.414 %  
b. 10.414 %  
c. 11.412 %  
d. 12.414 %
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?  
a. Rs.150 millions  
b. Rs.250 millions  
c. Rs.350 millions  
d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?  
a. 12.29%  
b. 14.29%

3  
9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?

- a. 25 %
- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. Rs.271.415 millions
- d. Rs.281.415 millions

1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. Primary market
- C. Capital market
- D. Money market

2. In financial statement analysis, shareholders focus will be on the:

- A. Liquidity of the firm
- B. Long term cash flow of the firm
- C. Profitability and long term health of the firm
- D. Return on investment

3. The statement of cash flows helps users to assess and identify all of the following except:

- A. The impact of buying and selling fixed assets.
- B. The company's ability to pay debts, interest and dividends.
- C. A company's need for external financing.
- D. The company's reliance on capital leases.

4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?

- A. Fall
- B. Rise
- C. Remain unchanged
- D. None of the given option

5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?

- A. 1.42215
- B. 2.75886
- C. 3.75886
- D. 4.08998

6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?

- A. Compounded daily

- B. Compounded quarterly
- C. Compounded semiannually
- D. Compounded annually

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?

- A. a.Rs. 200 million
- B. b.Rs.240 million
- C. c.Rs.275 million
- D. d.Rs.290 million

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8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?

- A. 6.12 times
- B. 7.11 times
- C. 8.11 times
- D. 9.11 times

9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?

- A. 20.00%
- B. 20.50%
- C. 21.00%
- D. 21.99%

10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?

- A. Rs.60, 000
- B. Rs.64, 000**
- C. Rs.72, 000
- D. Rs.74, 000

*Choose the Most Appropriate Answer among the given choices.*

**1. The difference between the return on a risky investment and that on a risk-free investment.**

- A. Risk Return
- B. Risk Premium**

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- C. Risk Factor
- D. None of the above**

**2. A group of assets such as stocks and bonds held by an investor.**

- A. Portfolio**
- B. Capital Structure

- C. Budget
- D. None of the above**

**3. If the variance or standard deviation is larger then the spread in returns will be:**

- A. Less
  - B. More**
  - C. Same
  - D. None of the Above
- 4. The following risk is entirely wiped out by Diversification.**
- A. Systematic Risk
  - B. Unsystematic Risk**
  - C. Portfolio Risk
  - D. Total Risk
- 5. The objective for using the concept of Diversification is to :**
- A. Minimize the Risk
  - B. Maximize the return
  - C. A & B**
  - D. None of the Above
- 6. While studying the relationship in risk and return, It is commonly known that:**
- A. Higher the risk, lower the return
  - B. Lower the risk, higher the return
  - C. Higher the risk, higher the return**
  - D. None of the above
- 7. This type of risk affects almost all types of assets.**
- A. Systematic Risk**
  - B. Unsystematic Risk

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- 7
- C. Total Risk
- D. Portfolio Risk

**MCQ # 08 – 10 are based on the following data:**

**Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).**

**8. According to the given data, the Capital Gain will be:**

- A. 10,500
- B. 7,500**
- C. 10,000
- D. 7,000

**9. According to the given data, the Dividend yield will be:**

- A. 8.50 %
- B. 6.25%
- C. 8.00%**
- D. 6.67%

**10. According to the given data, Total Percentage Returns will be:**

- A. 20%
- B. 28%**
- C. 32%
- D. 35%

Total marks: 10

Choose and highlight the right option:

1. ROE in DuPont identity is affected by:

- a. Operating efficiency
- b. Asset usage efficiency
- c. Financial leverage
- d. All of the given options

2. A decrease in the percentage of net income paid out as a dividend, will increase the:

a. Return on assets ratio

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b. Retention ratio

c. Leverage ratio

d. Profit margin

3. Which of the following does not change Current ratio of a business:

a. Efficient usage of current assets

b. Change in the nature of the firm

c. Change in Accounting method of the firm

d. Change in the management of the firm

4. Present value factor is:

a.  $(1+r)^t$

b.  $(1-r)^t$

c.  $1/(1+r)^t$

d.  $1/(1+r)^{1/t}$

5. Depreciation expense is:

a. Operating expense

b. Investing expense

c. Financing expense

d. All of the given options

6. Internal growth rate tell how rapidly:

a. The firm grows

b. Sales of the firm grows

c. Profit of the firm grows

d. None of the given options

7. You can determine the number of periods (n) in a present value calculation, if you know:

a. Future amount

b. Present value

c. Interest rate

d. All of the given options

8. Which one of the present value factor is larger?

a. PV of 1 factor for 10%

b. PV of 1 factor for 12%

c. Both have the same effect

d. It cannot be determined

9. If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?

a. 5.27 years

b. 6.27 years

c. 7.27 years

d. 7.57 years

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10. The future value of first Rs. 100 in 2 years at 8% discount is:

a. Rs. 116.64

b. Rs. 111.64

c. Rs. 164.64

d. Rs. 164.61

1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?

a. Rs.60

b. Rs.64

c. Rs.68

d. Rs.74

2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%. The price per share in this case would be \_\_\_\_\_.

a. Rs.149.8

b. Rs.184.9

c. Rs.198.4

d. Rs.229.9

3. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?

a. 17%

b. 27%

c. 37%

d. 47%

4. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast

a. 150 votes

**1. Investing activities include:**

- Purchase of property, plant and equipment
- Cash received from the issuance of stock or equity in the business.
- Purchases of stock or other securities (other than cash equivalents)
- Both a & c

**2. Changes in cash from financing are "cash in" when:**

- Capital is raised
- Assets increased
- Liabilities decreased
- Cash withdrawn

**3. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:**

a. Cash from operations activities

- b. Cash from financing activities
- c. Cash from investing activities
- d. None of the given options

4. \_\_\_\_\_ are short-term, temporary investments that can be readily converted into cash.

- a. marketable securities
- b. Cash equivalents
- c. Treasury bills
- d. All of the given options

5. The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.

- a. Actual cash income
- b. Un earned income
- c. Coming year income
- d. Last year's income

6. Ratios look at the relationships between individual values and relate them to how a company:

- a. Has performed in the past
- b. Might perform in the future
- c. Both a & b
- d. None of the given options

7. The current ratio is also known as:

- a. Working capital ratio
- b. Leverage ratio
- c. Turnover ratio
- d. None of the given options

8. \_\_\_\_\_ is concerned with the relationship between the long terms liabilities *that a business has and its capital employed.*

- a. Gearing
- b. Acid test ratio
- c. Working capital management
- d. All of the given options

9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios

10. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

## **SOLUTION**

*Most Appropriate Answer among the given choices has been chosen.*

1. \_\_\_\_\_ is considered as bottom line in Income Statement?

- E. Total Assets

F. Total Liabilities

**G. Net Profit**

H. Gross Profit

2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?

E. Income Statement

**F. Balance Sheet**

G. Cash Flow Statement

Total

Marks

10

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H. Owner's Equity Statement

3. \_\_\_\_\_ involves the sale of used securities from one investor to another?

E. Primary Market

**F. Secondary Market**

G. Tertiary Market

H. None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

**E. Liquidity**

F. Financial Leverage

G. Profitability

H. Market Value

5. The process of planning and managing a firm's long-term investments is called:

E. Planning Process

F. Capital Structure

**G. Capital Budgeting**

H. Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

E. 6.37 %

F. 8.37 %

**G. 15.7 %**

H. 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs.

99 per share at the end of year. Income Statement reported a net income of Rs.

385,000. The Price Earning Ratio for S&T Company will be:

E. 8 times

**F. 9 times**

G. 10 times

H. 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

**E. Total Assets**

F. Total Liabilities

G. Total Capital

H. Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

E. Sole Proprietorship

F. Partnership

**G. Corporation**

H. None of the given options

10. Which one of these is considered as a non-cash item?

- E. Inventory
- F. Accounts Payable
- G. Accounts Receivable
- H. Depreciation**

1. \_\_\_\_\_ is a special case of annuity, where the stream of cash flows continues forever.

Total  
Marks

10

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I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

4. When the interest rates fall, the bond is worth \_\_\_\_\_.

**I. More**

J. Less

K. Same

L. All of the given options.

5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?

I. 30 %

J. 50 %

**K. 70 %**

L. 90 %

6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

**L. All of the given options.**

7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.

**I. Present Value**

J. Future Value

K. Capital Gain

L. Net Profit

8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?

I. Rs. 319.45

J. Rs. 390.75

**K. Rs. 419.45**

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

- I. Time to maturity
- J. Coupon rate
- K. A and B**
- L. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

- I. 8 %**
- J. 10 %
- K. 12 %
- L. 14 %

**1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.**

- M. Sunk cost
- N. Opportunity cost**
- O. Financing cost
- P. All of the given options

**2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?**

- M. 13.07 %
- N. 15.67 %
- O. 16.00 %
- P. 18.80 %**

**3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.**

- M. Portfolio**
- N. Diversification
- O. Stock Bundle
- P. None of the given options

**4. Which of the following measures the present value of an investment per dollar invested?**

- M. Net Present Value (NPV)
- N. Profitability Index (PI)**
- O. Average Accounting Return (AAR)
- P. Internal Rate of Return (IRR)

**5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:**

- M. 37.5 %
- N. 47.5 %
- O. 62.5 %**
- P. 72.5 %

**6. A risk that influences a large number of assets is known as:**

- M. Systematic Risk
- N. Market Risk
- O. Non-diversifiable Risk
- P. All of the given options**

**7. Which of the following risk can be eliminated by diversification?**

- M. Systematic Risk
- N. Unsystematic Risk**
- O. A & B
- P. None of the given options

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

- M. 2.6 Years**
- N. 3.1 Years
- O. 3.6 Years
- P. 4.1 Years

9. A model which makes an assumption about the future growth of dividends is known as:

- M. Dividend Price Model
- Q. Dividend Growth Model**
- N. Dividend Policy Model
- O. All of the given options

10. Which of the following is not a quality of IRR ?

- M. Most widely used
- R. Ideal to rank the mutually exclusive investments**
- N. Easily communicated and understood
- O. Can be estimated even without knowing the discount rate

15. The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.

- a. Actual cash income**
- b. Un earned income
- c. Coming year income
- d. Last year's income

16. Ratios look at the relationships between individual values and relate them to how a company:

- a. Has performed in the past
- b. Might perform in the future
- c. Both a & b**
- d. None of the given options

17. The current ratio is also known as:

- a. Working capital ratio**
- b. Leverage ratio
- c. Turnover ratio
- d. None of the given options

18. \_\_\_\_\_ is concerned with the relationship between the long terms liabilities that a business has and its capital employed.

- a. Gearing**
- b. Acid test ratio
- c. Working capital management
- d. All of the given options

19. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

- a. Management ratios
- b. Working capital ratios
- c. Net profit margin ratios
- d. Solvency Ratios**

20. Balance sheet items expressed as percentage of:

- a. Net sales
- b. Total revenue
- c. Total assets
- d. Total liabilities

1. Ann is interested in purchasing Ted's factory. Since Ann is a poor negotiator, she hires Mary to negotiate a purchase price. Identify the parties to this transaction from the given options, keeping in view the agency theory:

- e. Ann is the principal and Mary is the agent.
- f. Mary is the principal and Ann is the agent.
- g. Ted is the agent and Ann is the principal.
- h. Mary is the principal and Ted is the agent.

2. Which of the given options apply to auction markets?

- e. Trading in a given auction exchange takes place at a single site on the floor of the exchange.
- f. Transaction prices of shares are communicated almost immediately to the public.
- g. Listing.
- h. All of the given options (a, b and c). <http://www.vustudents.net>

3. Suppose a Corporation has a taxable income of \$200,000 and the tax amount is as given in the calculations:

$$\$ 50,000 \times 15\% = \$ 7,500$$

$$(\$ 75,000 - 50,000) \times 25\% = 6,250$$

$$(\$ 100,000 - 75,000) \times 34\% = 8,500$$

$$(\$ 200,000 - 100,000) \times 39\% = \underline{39,000}$$

Total tax is \$61,250

Average tax rate is  $\$61,250 / 200,000 = 30.625\%$ . Marginal tax rate will be:

- i. 39%
- j. 34%
- k. 15%
- l. 25%

4. A document that includes corporation's name, intended life, business purpose and number of shares and is necessary to form a corporation is known as:

- e. Charter
- f. Set of bylaws
- g. Regulations paper
- h. None of the given options

5. According to the accounting profession, which of the given options would be considered a cash-flow item from an "investing" activity in a cash flow statement?

- e. Cash outflow to the government for taxes.
  - f. Cash outflow to shareholders as dividends.
  - g. Cash outflow to lenders as interest.
  - h. Cash outflow to purchase bonds issued by another company**
- 6. Which one of the given options is generally considered the most liquid asset?**
- e. accounts receivable**
  - f. inventory
  - g. net fixed assets
  - h. intangible assets
- 7. Which of the given options is an advantage of a corporation that is *not* an advantage as a limited partner in a partnership?**
- e. Limited liability.
  - f. Easy transfer of ownership position.**
  - g. Double taxation.
  - h. All of the options are advantages that the corporation has over the limited partner.
- 8. In finance we refer to the market for relatively long-term financial instruments as the \_\_\_\_\_ market.**
- e. money
  - f. capital**
  - g. primary
  - h. secondary
- 9. \_\_\_\_\_ is concerned with the branch of economics relating the behavior of principals and their agents.**
- e. Financial management
  - f. Profit maximization
  - g. Agency theory**
  - h. Social responsibility
- 10. Which of the expenses in given options is not a cash outflow for the firm?**
- e. Depreciation**
  - f. Dividends
  - g. Interest payments
  - h. Taxes
- 2. A standardized financial statement presenting all items of the statement as a percentage of total is:**
- <http://www.vustudents.net>
- e. a common-size statement**
  - f. an income statement
  - g. a cash flow statement
  - h. a balance sheet
- 2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress. For this purpose you will study which category of ratios of the company?**
- e. Profitability Ratios
  - f. Liquidity ratios**
  - g. Debt ratios
  - h. Turnover ratios
- 3. Which one of the given options describes desirable current ratio for a business?**
- m. 0.2
  - n. 0.1

o. At least one

**4. Interest Coverage Ratios are also known as:**

e. **Times Interest Earned (TIE) Ratios**

f. Liquidity Ratios

g. Debt Ratios

h. Asset Management Ratios

**5. The Du Pont Identity tells us that Return on Equity is affected by:**

e. **operating efficiency (as measured by profit margin)**

f. **asset use efficiency (as measured by total assets turnover)**

g. **financial Leverage (as measured by equity multiplier)**

h. **all of the given options (a, b and c)**

**6. Benchmarking is used to establish a standard to follow for:**

- **comparison**

- identification

- calculation

- liability

- **7. A series of constant cash flows that occur at the end of each period for some fixed number of periods is**

- **an ordinary annuity**

- annuity due

- multiple cash flows

- perpetuity

- **8. Suppose the total cost of a college education will be \$50,000 in 12 years for a child. The Parents have \$5,000 to invest today. What rate of interest must they earn on investment to cover the cost of child's education?**

- **21.15%**

- 12%

- 18%

- 30%

- **9. If the bank loans out \$10,000 for 90 days at 8% simple interest, the PV is:**

- **\$9,806.56**

- \$9000

- \$10000

- \$9500

- **Suppose, you deposited an amount of Rs.1000 in Habib Bank at the start of year 2006. How much interest amount will you have at the end of the year if the bank pays simple interest @10% p.a.?**

- Rs.100

- Rs.10

- Rs.90

- Rs.1000

1. \_\_\_\_\_ is considered as bottom line in Income Statement?

- Total Assets
- Total Liabilities
- Net Profit
- Gross Profit

2. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?

- Income Statement
- Balance Sheet
- Cash Flow Statement
- Owner's Equity Statement

3. \_\_\_\_\_ involves the sale of used securities from one investor to another? <http://www.vustudents.net>

- Primary Market
- Secondary Market
- Tertiary Market
- None of the given options

4. \_\_\_\_\_ Ratios shows a firm's ability to pay its bills in short term?

- Liquidity
- Financial Leverage
- Profitability
- Market Value

5. The process of planning and managing a firm's long-term investments is called:

- Planning Process
- Capital Structure
- Capital Budgeting
- Managing Process

6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:

- 6.37 %
- 8.37 %
- 15.7 %
- 12.5 %

7. S&T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&T Company will be:

- 8 times
- 9 times
- 10 times
- 11 times

8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :

- Total Assets
- Total Liabilities
- Total Capital
- Net Profit

9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

- Sole Proprietorship
- Partnership
- Corporation
- None of the given options

10. Which one of these is considered as a non-cash item?

- Inventory

- Accounts Payable
- Accounts Receivable
- Depreciation

Total Marks: 10

Upload date of Quiz 03 Solution: June 23, 2006

MCQs with the most appropriate choices:

1. Suppose PTCL Corporation Ltd. next dividend will be \$12 per share. Investors require 18% return on the similar stocks. PTCL Corporation's dividend grows by 7% every year. What is the value of PTCL stock today?
  - a. \$119.085
  - b. \$133.333
  - c. \$109.091
  - d. \$106.063
2. Al-Saeed Corporation stock is currently selling for \$60 per share. The next dividend is \$9 per share and it is expected to grow by 12% more or less indefinitely. What return does this stock offer to you?
  - a. 15%
  - b. 25%
  - c. 27%
  - d. 17%
3. Consider Merry Corporation that has 500 shareholders and is going to elect its eight directors. If you hold 19 shares, how many votes under cumulative voting system you may cast for the appointment of directors for Merry Corporation?
  - a. 115 votes
  - b. 130 votes
  - c. 152 votes
  - d. 165 votes
4. Shareholders sometimes have the right to share proportionately in any new stock sold by the company. This right of shareholder is called \_\_\_\_\_.
  - a. Preference right
  - b. Cumulative right
  - c. Preemptive right
  - d. None of the given options
5. National Bank of Pakistan has newly issued five hundred thousand shares to the general public. You applied for 500 shares with National Bank of Pakistan. Suppose you receive acknowledgement letter from National Bank of Pakistan that you have been allotted 500 shares. Now you are interesting to sell these shares to Aslam. The market in which first transaction of shares took place is a:
  - a. Secondary market
  - b. Treasury market
  - c. Primary market
  - d. Special market
6. A company is making an investment in a project whose net present value is -\$5000. This investment decision will have \_\_\_\_\_ affect on share value.
  - a. Positive
  - b. Negative
  - c. no
  - d. None of the given options
7. Which option shows shortcomings that relate to payback period method?

- a. It considers the risk differences
- b. Time value of money is considered
- c. It provides an objective basis for a particular number for the cutoff period
- d. Biased against long term projects i.e. research and development and new projects

8. If two projects A and B are mutually exclusive projects then it means

- a. We have to select both projects at a time
- b. The selection of A project prevent the selection of B project
- c. The selection of B project prevent the selection of A project
- d. Both options b and c are true

8. Which of the following expenses is not a tax deductible expense?

- a. Depreciation
- b. Interest expense
- c. Dividend paid
- d. Selling expense

9. A firm's investment decision is also called the:

- a. financing decision
- b. capital budgeting decision
- c. liquidity decision
- d. debt financing

10. The Projected cash flows from a proposed investment are:

Year	Cash Flow
1	\$100
2	200
3	500

The project costs \$500. What is the

- a. 2.4 years
- b. 5 years
- c. 3 years
- d. 2 years

payback period for this investment?

2. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

- Capital Structuring
- Capital Rationing
- Capital Budgeting
- Working Capital Management

3. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

- Operating Cash Flows
- Investing Cash Flows
- Financing Cash Flows
- All of the given options

4. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float  
Collar  
Limit  
Surplus

5. Which of the following is the acronym for GAAP?  
Select correct option:

Generally Applied Accountability Principles  
General Accounting Assessment Principles  
**Generally Accepted Accounting Principles**  
General Accepted Assessment Principles

6. Which of the following strategy belongs to restrictive policy regarding size of investments in current assets?  
Select correct option:

To maintain a high ratio of current assets to sales  
**To maintain a low ratio of current assets to sales**  
To less short-term debt and more long-term debt  
To more short-term debt and less long-term debt

7. Quick Ratio is also known as:  
Select correct option:

Current Ratio  
**Acid-test Ratio**  
Cash Ratio  
None of the given options

8. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?  
Select correct option:

Sole-proprietorship  
**Partnership**  
Corporation  
None of the given options

9. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.  
Select correct option:

20%; 80%  
37%; 63%  
63%; 37%  
80%; 20%

10. Which of the following terms refers to the costs to store and finance the assets?  
Select correct option:

Carrying costs  
**Shortage costs**  
Storing costs  
financing costs

11. Which one of the following statement is INCORRECT regarding MACRS depreciation?  
Select correct option:  
**Every asset is assigned to a particular class which establishes asset's life for tax purposes.**
12. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.
- b. Annual depreciation remains constant every year even by using different rates.  
c. The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation.
13. Which of the following statement is CORRECT regarding compound interest?  
Select correct option:  
It is the most basic form of calculating interest.  
It earns profit not only on principal but also on interest.  
**It is calculated by multiplying principal by rate multiplied by time.**  
It does not take into account the accumulated interest for calculation.
14. Mr. A has just recently started a business by investing a capital of Rs. 500,000. He will be the only owner of the business and also enjoy all the profits of the business. Which type of business is being employed by Mr. A?  
Select correct option:  
**Sole-proprietorship**  
Partnership  
Corporation  
None of the given options
15. Time value of money is an important finance concept because:  
Select correct option:  
It takes risk into account  
It takes time into account  
It takes compound interest into account  
**All of the given options**
16. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?  
Select correct option:  
5.00 percent  
7.00 percent  
8.45 percent  
10.0 percent
17. Which of the following ratios are particularly interesting to short-term creditors?  
Select correct option:  
**Liquidity Ratios**  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios
18. Which of the following equation is known as Cash Flow (CF) identity?  
Select correct option:  
CF from Assets = CF to Creditors – CF to Stockholder  
CF from Assets = CF to Stockholders – CF to Creditors  
CF to Stockholders = CF to Creditors + CF from Assets  
**CF from Assets = CF to Creditors + CF to Stockholder**

19. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

NPV is equal to Zero

NPV is less than Zero

**All of the given options**

20. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

21. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

**Simple and easy to calculate**

None of the given options

22. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

**Either because both options are of equal value**

23. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

24. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

25. Business risk depends on which of the following risk of the firm's assets ?

Select correct option:

**Systematic Risk**

Diversifiable Risk

Unsystematic Risk

None of the given options

26. Which of the following type of risk can be eliminated by diversification?

Select correct option:

**Systematic Risk**

Market Risk

Unsystematic Risk

None of the given options

27. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?

Select correct option:

Profit Margin

Return on Assets

**Return on Equity**

Debt-Equity Ratio

28. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

29. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

Cost of debt

Cost of preferred stock

**Cost of common equity**

Cost of retained earnings

30. Systematic Risk is also known as:

Select correct option:

Diversifiable Risk

**Market Risk**

Residual Risk

Asset-specific Risk

31. ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with 70 shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70

120

200

280

1. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

2. Period costs include which of the following?

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

3. Product costs include which of the following?

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

4. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

5. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

6. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

7. **Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

8. **Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

9. **Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

10. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

11. **In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

12. **Which of the following ratios are particularly interesting to short-term creditors?**

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

13. **shows the sources from which cash has been generated and how it has been spent**

**during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

14. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction**

**will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

**Financing activity**

None of the given options

15. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

16. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

17. **A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

18. **Net Income after taxation differs from Net Cash Flow from operations because:**

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

19. **Which of the following statement shows assets, liabilities, and net worth as of a specific**

**date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

20. **A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

21. **Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**22. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**23. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**24. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**25. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**26. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**27. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**28. which of the following is not a form of business organization**

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

**29. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**30. The accounting definition of income is:**

Select correct option:

Income = Current Assets – Current Liabilities

Income = Fixed Assets – Current Assets

Income = Revenues – Current Liabilities

**Income = Revenues – Expenses**

**31. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

- Depreciation
- Interest
- Expenses related to firm's financing of its assets

**All of the given options**

**32. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

- Rs. 105,600
  - Rs. 148,500
  - Rs. 165,000**
  - Rs. 225,000
- Solution= $250000 * 34\% = 85000$   
 $250,000 - 85000 = 165000$

**33. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

- Debt securities or bonds lec 17**
- Common Stocks
- Preferred Stock
- All of the given options

**34. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios
- Market Value Ratios

**35. In which type of market, used securities are traded?**

Select correct option:

- Primary market
- Secondary market**
- Tertiary market
- None of the given options

**36. Who of the following make a broader use of accounting information?**

Select correct option:

- Accountants
- Financial Analysts lec 2**
- Auditors
- Marketers

**37. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

- Revenue
- Expenses
- Depreciation**
- All of the given options

**38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

- Rs. 100**
  - Rs. 510
  - Rs. 1,000
  - Rs. 1,100
- Solution:  
 $= 1000 / 10$   
 $= 100$

39. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

**Payback Period** lec 28

Net Present Value

Average Accounting Return

None of the given options

40. Period costs include which of the following?

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

41. The value of net working capital will be greater than zero when:

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

42. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

43. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

44. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

45. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

46. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnership

Corporation

47. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

48. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

49. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

50. Which of the following refers to the difference between the sale price and cost of inventory?

Select correct option:

Net loss

**Net worth**

Markup

Markdown

51. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

52. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

53. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

54. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

55. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

56. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

57. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

58. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

59. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

Asset= liabilities+ capital so 300+500=800,000

60. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

**Corporation**

61. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

62. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

63. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

solution

$40000 * 1 / (1 + 0.12)^5 = 22697.07$

65. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

66. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

67. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

68. **Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

69. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

70. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

**Positive**

Negative

zero

None of the given options

71. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

72. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

73. **Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.

Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

75. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

77. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

78. Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

79. Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

80. Product costs include which of the following?

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

81. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

4100-3000=1100

82. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

83. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

84. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

85. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

86. **Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

87. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

88. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

89. **Which of the following area of finance deals with stocks and bonds?**

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

90. **7:03 AM Which of the following is NOT an external use of financial statements information?**

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

**91. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

**92. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.**

What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

**93. Which of the following is the process of planning and managing a firm's long-term investments?**

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

**94. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**95. Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

**96. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?**

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

**97. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.**

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

**98. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm**

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

99. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

101. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

102. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

The \_\_\_\_\_ debt a firm has (as a percentage of assets); the \_\_\_\_\_ is the degree of financial leverage.

**More; greater**

- Which of following is(are) the non-cash item(s)?

**Depreciation**

- Which of the following is the extra rate you would pay if you earn one more dollar

**marginal tax rate**

Which of the following is NOT an investing cash flow?

**Proceeds from the sale of a retired asset**

Which of the following is a special case of annuity, where the stream of cash flows

**Perpetuity**

Which of the following represent(s) a loan made by the investors to the issuer?

**Bond**

Which one of the following statements is INCORRECT regarding a bond?

A bondholder has a part of ownership in the firm

A bond's value will rise above its par value during its life if interest rate:

Goes up

When the market's required rate of return for a particular bond is much higher

Premium

Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

More than

Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change more than that of \_\_\_\_\_ bond.

Higher-coupon; lower-coupon

Which of the following term refers to a contract between the bond issuer and bondholders?

Bond indenture

Which of the following allows a company to repurchase part or all of the bond?

Call provision

Which of the following long-term rating by PACRA denotes a high default risk?

CCC

Which one of the following statements is INCORRECT regarding floating-rate bond?

Holder of this type of bond has the right to redeem the note at par on the coupon payment date after some specified period of time.

Which of the following is NOT dealt by a controller under the head of a CFO?

Data Processing

Product costs do NOT include which of the following?

Manufacturing overhead

Which one of the following ratios indicates the return firm shareholders are earning?

Return on equity

Which one of the following is a CORRECT statement about the Price- Earning Ratio?

A firm with high earning per share will also have a very high PE ratio.

**Choose the Most Appropriate Answer among the given choices.**

**1. In the formula  $k_e = (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?**

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

**2. If you owned 100 shares of a company and there are three directors to be elected. How much votes you would have as per cumulative voting procedure?**

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes
- D. 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

- A. Rs. 30
- B. Rs. 40
- C. Rs. 50
- D. Rs. 60

4. Which of the following is NOT a characteristic of preferred stock?

- A. Dividends on these stocks cannot be cumulative
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

5. A project has an initial investment of Rs. 400,000. What would be the NPV for the project if it has a profitability index of 1.15?

- A. Rs. 30000
- B. Rs. 40,500
- C. Rs. 50,000
- D. Rs. 60,000

Virtual University of Pakistan

Total Marks

10

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**Quiz # 03( Solution ) – Spring 2008 Business Finance (ACC501)**

6. What will be the proper order of completion regarding the capital budgeting process?

- ( I ) Perform a post-audit for completed projects;
- ( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;
- ( IV ) Select value-maximizing projects; ( V ) Evaluate projects.

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

7. Following are the two cases:

Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a project for ABC Company that the company is planning to undertake. He has suggested that the project is feasible.

Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a project for XYZ Company that the company is planning to undertake. He has suggested that the project is not feasible.

The consultancy fee paid to Mr. A will be considered as:

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II
- D. Opportunity cost in both Case I and Case II

8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %

9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B then what will be the weight of Asset B in your portfolio?

- A. 0.30

- B. 0.40
- C. 0.60
- D. 0.75

10. Which of the following set of cash flows represents the change in the firm's total cash flow that occurs as direct result of accepting the project?

- A. Relevant Cash Flows
- B. Incremental Cash Flows**
- C. Negative Cash Flows
- D. All of the given option

Select the correct answer from the given choices:

1. Dividend growth model assumes that basis of valuation of stock is on:

- a. The current dividend
- b. Growth of the dividend
- c. Required rate of return

**d. All of the given options**

2. Dividend growth models tells us that if the growth rate  $g$ , is bigger than discount rate  $R$ , then the present value of the dividends keeps on getting:

- a. Smaller and smaller
- b. Bigger and bigger**
- c. Constant

**d. Non constant growth**

3. When directors are elected through cumulative voting, this procedure is:

- a. Adopted to permit minority participation
- b. Adopted to select directors one at a time
- c. Used by individual shareholders to distribute votes however they wish

**d. Both a & c**

4. There is more than one class of common stocks with equal and unequal voting rights; the primary reason behind such stocks is concerned:

- a. Behaviors of the investors
- b. Availability of the shares

**c. Control of the firm**

**d. Principle of classification of shares**

5. Dividends received by individuals are considered ordinary income by tax authorities and are:

- a. Fully taxable
- b. Tax deductible**
- c. Fully exempt

**d. None of the given options**

#### Quiz 02 (ACC 501) Fall Semester 2007

6. An agent who buys or sells securities from a maintained inventory is a:

- a. Jobber
- b. Dealer**
- c. Broker
- d. Customer

7. The investment is economically a break-even proposition when the NPV equal to:

- a. Positive
- b. Negative
- c. Zero**

**d. None of the given options**

8. \_\_\_\_\_ is often proposed as a measure of performance of government or other non profit investments.

- a. NPV
- b. IRR
- c. Profitability index**
- d. Pay back period

9. When capital is scarce, it is sensible approach to allocate it to those projects with highest \_\_\_\_\_.

- a. Payback period
- b. Internal rate of return
- c. Net present value
- d. Profitability index**

10. \_\_\_\_\_ is a cost that has already been incurred and cannot be recouped and therefore should not be considered in an investment decision.

- a. Opportunity cost
- b. Financing cost**

- c. Sunk cost
- d. Variable cost

1 to 62mcqs =62 marks

63 to 65 subjective=3\*3=9marks

66to 69 subjective=5\*4 =20marks

**Total paper 91 marks**

1. The time between sale of inventory and collection of receivable.

**a account receivable**

b operation cycle

c inventory period

d none of above

2. allow a bank to substitute its creditworthiness for the customer, for a fee is called \_\_\_\_\_ -

a open bank account

b commercial draft

c promisory note

**d banker accetptance**

3. Standard deviations for Investment A and Investment B are 25% and 12% respectively. This indicates that :

Select correct option:

Investment A is less volatile than Investment B

Investment B is equally volatile to Investment A

**Investment A is more volatile than Investment B**

Investment B is more volatile than Investment A

4. find the average 2%,5%,6%,8%

a 5%

**b 5.25 %**

c 6%

d 8%

5 what is standard deviation of these averages 2%,5%, 7%

6. As the dividend is always same for a zero growth stock, so the stock can also be viewed as

7. Which of the following statement shows revenue, expense, and net worth as of a specific date?

a balance sheet

**b income statement**

c cashflow

d none of above

8. which of the following character is not a systematic risk

market risk

interest risk

inflation risk

**strike call in a company**

9. A company has a two director and 1 shareholder which hav 25 power of share the voter for director is

a 100

b 150

**c 50**

d 25

10. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted**

11. Which of the following is the overall return the firm must earn on its existing assets to maintain the value of the stock?

Select correct option:

IRR (Internal Rate of Return)

MIRR (Modified Internal Rate of Return)

## WACC (Weighted Average Cost of Capital)

AAR (Average Accounting Return)

12. Which of the following is the return that firm's creditors demand on new borrowings ?

Select correct option:

**Cost of debt**

Cost of preferred stock

Cost of common equity

Cost of retained earnings

13. In which type of projects, the unequal lives of the projects do affect the analysis ?

Select correct option:

Mutually exclusive

Dependent

**Independent**

Correlated

14. Mr. Naveed has bought 100 shares of a corporation one year ago at Rs. 23 per share. Over the last year, he received a dividend of Rs. 1.50 per share. At the end of the year, the stock sells for Rs. 31. As per given information, what will be his total percentage return ?

Select correct option:

10.63%

20.20%

35.12%

**41.30%**

15. Which of the following is known as the group of assets such as stocks and bonds held by an investor ?

Select correct option:

Stock Bundle

**Portfolio**

Capital Structure

None of the given options

16. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

17. find the cash cycle inventory period is 38 days account payable period is 50 days and average account receivable period is 30 days

- a. 68
- b. 18**
- c. 80
- d. 118

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### ACC 501 Mcqs for Final Term

1. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level  
Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt-to-equity ratio?

ratio?

Select correct option:

- 0.101
- 0.220
- 0.667
- 0.818**

Reference:  $(1 - 0.45) = 0.55$

$= 0.45 / 0.55 = 0.818$

3. What amount a borrower would pay at the end of fourth year with a 4-year,

12%, interest-only loan of Rs. 8,000?

Select correct option:

- Rs. 1,360
- Rs. 2,000
- Rs. 5,625
- Rs. 8,960**

Reference:  $8000 * 12 / 100 = 8960$

4. What will be the price per share if there is a current dividend of Rs. 4.75,

required rate of return of 12% and growth rate of 5%?

Select correct option:

- Rs. 30.19
- Rs. 43.52
- Rs. 56.53
- Rs. 71.25**

Reference:  $D * (1 + g) / (r - g)$

$4.75 * (1 + 0.05) / (0.12 - 0.05) = 71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent.

**What is the compounding period?**

Select correct option:

Semiannually

~~Quarterly~~

**Monthly**

Daily

**Reference:** $(1+APR/m)^m-1$

APR=9

M=30

$(1+9/30)^{30}-1=9.38$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be

elected. How much votes Mr. Aslam would have as per cumulative voting

procedure?

Select correct option:

100 votes

200 votes

300 votes

400 votes

Reference:  $100 \times 4 = 400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year.

If this policy is to continue indefinitely, what will be the value of a share of

stock at a 15% required rate of return?

Select correct option:

Rs. 30

Rs. 40

Rs. 50

Rs. 60

Reference:  $6/0.15 = 40$

8. Which of the following process can be defined as the process of generating

earnings from previous earnings?

Select correct option:

Discounting

Compounding

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell

an asset?

Select correct option:

Market Value

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and

percentages in the report?

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash

flows are Rs. 4 million in the first year and Rs. 9 million in the second and

Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

15. When a corporation wishes to borrow from public on a long-term basis,

it does so by issuing or selling:

Select correct option:

**Debt securities or bonds pg 71**

- Common Stocks
- Preferred Stock
- All of the given options

16. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds 85**

- Zero coupon bonds
- Floating-rate bonds
- Euro bonds

17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

Select correct option:

- Low; higher
- High; lower

**High; higher pg 88**

- None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. Between the two identical bonds having different coupon, the price of the

\_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

Select correct option:

- Higher-coupon; lower-coupon
- Lower-coupon; higher-coupon

**Long-term; short-term**

- None of the given options

20. As the dividend is always same for a zero growth stock, so the stock can also

be viewed as:

Select correct option:

Ordinary Annuity

Annuity Due

[Ordinary perpetuity pg 91](#)

None of the given options

21. The coupon rate of a floating-rate bond is capped and upper and lower rates

are called:

Select correct option:

Float

[Collar pg 86](#)

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

Simple Interest Rate

Compound Interest Rate

[Economic Rate of Return](#)

Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the

following formula(s) can be used to find the dividend in two periods?

Select correct option:

$$D_2 = D_1 \times (1 + g)$$

$$D_2 = D_0 \times (1 + g)^2$$

$$D_2 = D_0 \times (1 + g)^2$$

[All of the given options pg 92](#)

24. A project whose acceptance does not prevent or require the acceptance of

one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV

for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it

reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

Select correct option:

- Positive
- Negative pg 80**
- Neutral
- None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

- Cash flow s are conventional
- Cash flow s are independent
- Cash flow s are both conventional and independent pg 110**
- None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

- Repayment
- Seniority
- Call provision**
- Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

- Most widely used
- Ideal to rank the mutually exclusive investments pg 116**
- Easily communicated and understood
- Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

Select correct option:

- Primary Market
- Secondary Market pg 100**
- Tertiary Market
- None of the given options

33. A model which makes an assumption about the future growth of dividends is

known as:

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present

Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria

for capital budgeting decisions?

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

**39. Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**40. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

**41. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

**42. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates \_\_\_\_\_ than short term rates reflected by an upward term structure.**

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

**44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate**

**if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

**45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300**

**Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be**

**the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

**Which of the following is NOT a determinant of term structure?**

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

48. In which type of the market, securities are originally sold to the investors?

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at

a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds  
Euro bonds

**52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required**

**return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

**53. Which of the following comes under the head of accounting criteria for**

**capital budgeting decision?**

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

**54. Which of the following is a series of constant cash flows that occur at the end**

**of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

**55. Which of the following term refers to the difference between the present**

**value of cash inflows and the present value of cash outflows?**

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

**56. One would be indifferent between taking and not taking the investment**

**when:**

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero pg 104 doubt ask question in mdb**

NPV is less than Zero  
All of the given options

57. Which one of the following terms refers to the risk arises for bond owners

from fluctuating interest rates?

Select correct option:

Fluctuations Risk  
**Interest Rate Risk pg75**  
Real-Time Risk  
Inflation Risk

58. All else equal, the market value of a corporate bond is always inversely

related to its:

Select correct option:

Time to maturity  
Coupon rate  
Yield to maturity  
**All of the given options**

59. Which of the following issue is NOT covered by “Investment” area of

finance?

Select correct option:

Best mixture of financial investment  
**International aspects of corporate finance**  
Associated risks and rewards  
Pricing financial assets

60. Period costs include which of the following?

Select correct option:

**Selling expense**  
Raw material

Direct labor  
Manufacturing overhead

61. **Product costs include which of the following?**

Select correct option:

Selling expenses  
General expenses  
**Manufacturing overhead**  
Administrative expenses

62. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin  
Total Assets Turnover  
**Debt-equity ratio**  
None of the given options

63. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow  
Capital spending  
Change in net working capital  
**All of the given options**

64. **Which of the following refers to the cash flows that result from the firm's**

**day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**  
Investing Cash Flows  
Financing Cash Flows  
All of the given options

65. **Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research  
Product Pricing  
Design of marketing and distribution channels  
**All of the given options**

66. Which of the following costs are reported on the income statement as the **cost**

of goods sold?

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year.

During

that time, average receivables were Rs. 150,000. Assuming a 365-day year,

what was the average collection period?

Select correct option:

5 days

36 days

48 days

**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt **financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are **traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term **creditors?**

Select correct option:

Liquidity Ratios  
Long-term Solvency Ratios  
Profitability Ratios  
Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been**

**spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement

72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This**

**transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity  
Investing activity  
Financing activity  
None of the given options

73. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio  
**Acid-test Ratio**  
Cash Ratio

74. **of the following statement measures performance over a specific period of**

**time?**

Select correct option:

**Income Statement**

Balance Sheet  
Cash Flow Statement  
Retained Earning Statement

75. **Which of the following statement shows assets, liabilities, and net worth as**

**a specific date?**

Select correct option:

Income Statement  
**Balance Sheet**  
Owner's Equity Statement  
Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends  
**Retained Earnings**  
Capital Gain  
None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio  
Quick Ratio  
**Cash Coverage Ratio**  
Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**  
Return on Assets  
Return on Equity  
Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**80. Which of the following is measured by profit margin?**  
Select correct option:

**Operating efficiency**

- Asset use efficiency
- Financial policy
- Dividend policy

**81. Who of the following make a broader use of accounting information?**  
Select correct option:

Accountants

**Financial Analysts**

- Auditors
- Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**84. which of the following is not a form of business organization**  
Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**  
Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**86. The accounting definition of income is:**  
Select correct option:

Income = Current Assets - Current Liabilities  
Income = Fixed Assets - Current Assets  
Income = Revenues - Current Liabilities  
**Income = Revenues - Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**  
Select correct option:

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**  
Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**  
Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**  
Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**  
Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**  
Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

98. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This

transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the

company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution=  $700000/460000=1.52$

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnerhsip

Corporation

102. **a firm uses cash to purchase inventory, its current ratio will:**  
Select correct option:
- Increase
  - Decrease
  - Remain unaffected**
  - Become zero
103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**  
Select correct option:
- Ordinary Annuity**
  - Special Annuity
  - Annuity Due
  - Perpetuity
104. **Which of the following is an example of positive covenant?**  
Select correct option:
- Maintaining any collateral or security in good condition**
  - Limiting the amount of dividend according to some formula
  - Restricting pledging assets to other lenders
  - Barring merger with another firm
105. **Which of the following refers to the difference between the sale price and cost of inventory?**  
Select correct option:
- Net loss
  - Net worth**
  - Markup
  - Markdown
106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**  
Select correct option:
- Repayment
  - Seniority
  - Call provision**
  - Protective covenants

107. \_\_\_\_\_ shows the sources from which cash has been generated

and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

Common Stocks  
Preferred Stock  
All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

Inventory  
Supplies  
Machinery  
**Depreciation**

**114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

Rs. 300,000  
Rs. 500,000  
**Rs. 800,000**  
Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership  
**Corporation**

**116. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**none of the above**

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

122. Which of the following statement about bond ratings is TRUE?  
Select correct option:  
Bond ratings are typically paid for by a company's bondholders.  
Bond ratings are based solely on information acquired from sources other than the bond issuer.  
**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**  
None of the given options
123. Which of the following is the acronym for GAAP?  
Select correct option:  
Generally Applied Accountability  
Principles General Accounting Assessment  
Principles  
**Generally Accepted Accounting Principles**  
General Accepted Assessment Principles
124. Which of the following is NOT an internal use of financial statements information?  
Select correct option:  
**Planning for the future through historic information**  
Evaluation of performance through profit margin and return on equity  
Evaluation of credit standing of new customer  
**None of the given options**
125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?  
Select correct option:  
12 %  
25 %  
**40 %**  
60 %

**Solution**

Net income-dividend / net income \*100

$$250000-150000/250000*100=40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.  
Select correct option:

- Positive**  
Negative  
zero

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

128. **Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

129. **You just won a prize, you can either receive Rs. 1000 today or Rs.**

**1,050 in one year. Which option do you prefer and why if you can earn 5**

**percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage  
None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

132. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition  
Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

135. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

136. **An account was opened with an investment of Rs. 3,000 ten years ago.**

**The ending balance in the account is Rs. 4,100. If interest was compounded,**

**how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$$4100 - 3000 = 1100$$

137. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

7.00 percent

**7.12 percent**

7.19 percent

7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison  
Evaluation

140. **Which of the following is measured by profit margin?**  
Select correct option:

**Operating efficiency pg 44**

Asset use efficiency  
Financial policy  
Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**  
Select correct option:

2% to 8%  
4% to 25%  
**5% to 20%**  
10% to 50%

142. **Which of the following refers to a conflict of interest between principal and agent?**  
Select correct option:

Management Conflict  
Interest Conflict  
**Agency Problem**  
None of the given options

143. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**  
Select correct option:

**Ordinary annuity 63**

Annuity due  
Perpetuity  
None of the given options

144. **Which of the following area of finance deals with stocks and bonds?**  
Select correct option:  
Financial institutions

International finance

**Investments**

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?  
Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?  
Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?  
Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?  
Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

149. Which of the following refers to the cash flows that result from the

firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

II and IV  
I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share.

The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :  
Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

$ROTA = N.P / \text{Total Assets}$

$4\% = N.P / 500,000$

$4\% * 500,000 = N.P$

$N.P = Rs. 20,000$

$N.P \text{ Margin} = N.P / \text{Sales}$

$5\% = 20,000 / \text{Sales}$

$5\% * \text{Sales} = 20,000$

$\text{Sales} = 20,000 / 5\%$

$\text{Sales} = 400,000$

160. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if

bought at its current market price and held to maturity

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

## ACC 501 Mcqs for Final Term

1. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?

Select correct option:

0.101

0.220

0.667

**0.818**

Reference:  $(1-0.45=0.55)$   
 $=0.45/0.55=0.818$

3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

Reference:  $8000*12/100=8960$

4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

Reference:  $D*1+g/r-g$

$4.75*(1+0.05/4.75-0.12)=71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

Reference:  $(1+APR/m)^m-1$

APR=9

M=30

$(1+9/30)^{30}-1=9.38$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

Reference:  $100*4=400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

Select correct option:

Rs. 30

Rs. 40

Rs. 50

Rs. 60

Reference:  $6/0.15=40$

8. Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

9. Which of the following is the amount of cash we would get if we actually sell an asset?

Select correct option:

**Market Value**

Book Value

Intrinsic Value

None of the given options

10.

11. Which of the following financial statement shows both dollars and percentages in the report?

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

12. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

15. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

16. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

19. Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

20. As the dividend is always same for a zero growth stock, so the stock can also be viewed as:

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. The coupon rate of a floating-rate bond is capped and upper and lower rates are called:

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?

Select correct option:

$D_2 = D_1 \times (1 + g)$

$D_2 = D_0 \times (1 + g)^2$

$D_2 = D_0 \times (1 + g)^2$

**All of the given options pg 92**

24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

29. IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

31. Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

32. In which type of the market, previously issued securities are traded among investors?

Select correct option:

Primary Market

**Secondary Market pg 100**

Tertiary Market

None of the given options

33. A model which makes an assumption about the future growth of dividends is known as:

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index > 1, NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

39. Which of the following measures the present value of an investment per dollar invested?

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

40. Which of the following is a measure of accounting profit relative to the book value?

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

41. Which one of the following typically applies to preferred stock but not to common stock?

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

42. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

43. Expectation of a \_\_\_\_ inflation rate will push long term interest rates \_\_\_\_ than short term rates reflected by an upward term structure.

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

**44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$60+60=120/1000=12\%$

**45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

**Which of the following is NOT a determinant of term structure?**

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

**47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

**48. In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

**49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds

Euro bonds

52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

56. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero pg 104 doubt ask question in mdb**

NPV is less than Zero

All of the given options

57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?

Select correct option:

Fluctuations Risk

**Interest Rate Risk pg75**

Real-Time Risk

Inflation Risk

58. All else equal, the market value of a corporate bond is always inversely related to its:

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

**All of the given options**

**59. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**60. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

**63. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

**64. Which of the following refers to the cash flows that result from the firm’s day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**65. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

**66. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

**67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

73 days

$750000/150000=5$

$365/5=73\text{days}$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

70. Which of the following ratios are particularly interesting to short-term creditors?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

71. shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

72. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

73. me: Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

74. of the following statement measures performance over a specific period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

75. Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

76. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**84. which of the following is not a form of business organization**

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities

Income = Fixed Assets - Current Assets

Income = Revenues - Current Liabilities

**Income = Revenues - Expenses**

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 * 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

$= 1000 / 10$

$= 100$

**94. Which of the following comes under the head of discounted cash flow criteria**

**for capital budgeting decisions?**

Select correct option:

**Payback Period** lec 28

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**97. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

**98. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

**100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

**101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnership

Corporation

**102. a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. Which of the following refers to the difference between the sale price and cost of inventory?

Select correct option:

Net loss

**Net worth**

Markup

Markdown

106. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

113. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

**Corporation**

116. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$40000 * 1 / (1 + 0.12)^5 = 22697.07$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

121. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

122. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

123. **Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

124. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

127. **Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

**128. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

**129. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

**130. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

**131. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

**132. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**133. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

**134. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

**135. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**136. An account was opened with an investment of Rs. 3,000 ten years ago.**

The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$4100 - 3000 = 1100$

137. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

138. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

139. Which of the following term refers to establish of a standard to follow for comparison?

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

140. Which of the following is measured by profit margin?

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

141. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

142. Which of the following refers to a conflict of interest between principal and agent?

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

143. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

144. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income = ROA \* total asset**

**Net income = 8% \* 75000 = 6000**

**Profit margin = net income / sales \* 100**

**Profit margin = 6000 / 100000 \* 100 = 6%**

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share.

The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

$ROTA = N.P / \text{Total Assets}$

$4\% = N.P / 500,000$

$4\% * 500,000 = N.P$

$N.P = \text{Rs. } 20,000$

$N.P \text{ Margin} = N.P / \text{Sales}$

$5\% = 20,000 / \text{Sales}$

$5\% * \text{Sales} = 20,000$

$\text{Sales} = 20,000 / 5\%$

$\text{Sales} = 400,000$

160. Which of the following rate makes the Net Present Value (NPV) equal

to zero?

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

162. If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

163. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero

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ACC 501 Quiz Conference lecture 1 to 28  
This Mcqs for Final Term

1. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

2. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

3. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

4. **When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.**

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

5. **Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

6. **Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

7. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

8. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

9. **Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

10. **If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$$D2 = D1 \times (1 + g)$$

$$D2 = D_0 \times (1 + g)^2$$

$$D2 = D_0 \times (1 + g)^2$$

All of the given options pg 92

11. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

12. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

Reference=600000\*1.12=672000-600000=72000

13. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

14. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

**Income**

Zero coupon  
Floating-rate  
Put

**15. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.**  
Select correct option:

Positive  
**Negative pg 80**  
Neutral  
None of the given options

**16. IRR and NPV rules always lead to identical decisions as long as:**  
Select correct option:

Cash flow s are conventional  
Cash flow s are independent  
**Cash flow s are both conventional and independent pg 110**  
None of the given options

**17. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:  
Repayment  
Seniority  
**Call provision**  
Protective covenants

**18. Which of the following is NOT a quality of IRR?**

Select correct option:  
Most widely used  
**Ideal to rank the mutually exclusive investments pg 116**  
Easily communicated and understood  
Can be estimated even without knowing the discount rate

**19. In which type of the market, previously issued securities are traded among investors?**

Select correct option:  
Primary Market  
**Secondary Market pg 100**  
Tertiary Market  
None of the given options

**20. A model which makes an assumption about the future growth of dividends is known as:**  
Select correct option:

Dividend Price Model  
**Dividend Growth Model**  
Dividend Policy Model  
All of the given options

21. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)  
If Profitability Index  $< 1$ , NPV is Positive (+)  
**If Profitability Index  $> 1$ , NPV is Positive (+)**  
If Profitability Index  $> 1$ , NPV is Zero (0)

22. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

Payback Period  
**Net Present Value pg 118**  
Average Accounting Return

23.

- Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?**

Select correct option:

**Payback Period pg 119**  
Net Present Value  
Profitability Index  
Internal Rate of Return

24. **Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining any collateral or security in good condition**  
Limiting the amount of dividend according to some formula  
Restricting pledging assets to other lenders  
Barring merger with another firm

25. **Which of the following is the most common capital budgeting technique?**

Select correct option:

Payback Period  
**Net Present Value**  
Internal Rate of Return  
Profitability Index

26. **Which of the following measures the present value of an investment per dollar invested?**

Select correct option:

Net Present Value (NPV)  
Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

**27. Which of the following is a measure of accounting profit relative to the book value?**

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

**28. Which one of the following typically applies to preferred stock but not to common stock?**

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

**29. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**30. Expectation of a \_\_\_\_ inflation rate will push long term interest rates \_\_\_\_ than short term rates reflected by an upward term structure.**

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

**31. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$$60+60=120/1000=12\%$$

**32. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**33. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

**Which of the following is NOT a determinant of term structure?**

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

**34. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

**35. In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

**36. A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

37. **Which of the following is a characteristic of preferred stock?**

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

m.c.z.e

38. **In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share?**

Select correct option:

Straight Voting

Proportional Voting

Cumulative Voting

None of the given options

39. **When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:**

Select correct option:

Premium

Discount

Par

Cannot be determined without more information

40. **Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?**

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds

Euro bonds

41. **An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.**

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

42. **Which of the following comes under the head of accounting criteria for capital budgeting decision?**

Select correct option:

Payback Period

Net Present Value

Profitability Index

[Average Accounting Return pg 119](#)

43. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

[Ordinary annuity pg 63](#)

Annuity due

Perpetuity

None of the given options

44. **Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

45. **One would be indifferent between taking and not taking the investment when:**

Select correct option:

NPV is greater than Zero

[NPV is equal to Zero pg 104](#) doubt ask question in mdb

NPV is less than Zero

All of the given options

46. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?**

Select correct option:

Fluctuations Risk

[Interest Rate Risk pg75](#)

Real-Time Risk

Inflation Risk

47. **All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

[All of the given options](#)

Date :25-11-2010

ACC 501 Quiz Conference lecture 1 to 18  
This Mcqs for Midterm

48. **Which of the following issue is NOT covered by “Investment” area of finance?**  
Select correct option:
- Best mixture of financial investment
  - International aspects of corporate finance**
  - Associated risks and rewards
  - Pricing financial assets
49. **Period costs include which of the following?**  
Select correct option:
- Selling expense**
  - Raw material
  - Direct labor
  - Manufacturing overhead
50. **Product costs include which of the following?**  
Select correct option:
- Selling expenses
  - General expenses
  - Manufacturing overhead**
  - Administrative expenses
51. **Financial policy is evaluated by which of the following?**  
Select correct option:
- Profit Margin
  - Total Assets Turnover
  - Debt-equity ratio**
  - None of the given options
52. **Cash flow from assets involves which of the following component(s)?**  
Select correct option:
- Operating cash flow
  - Capital spending
  - Change in net working capital
  - All of the given options**
53. **Which of the following refers to the cash flows that result from the firm’s day-to-day activities of producing and selling?**  
Select correct option:
- Operating Cash Flows**

Investing Cash Flows  
Financing Cash Flows  
All of the given options

**54. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research  
Product Pricing  
Design of marketing and distribution channels

**All of the given options**

**55. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost  
Period cost  
**Both product cost and period cost**  
Neither product cost nor period cost

**56. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days  
36 days  
48 days  
**73 days**

$$750000/150000=5$$

$$365/5=73\text{days}$$

**57. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage  
**Financial Leverage**  
Manufacturing Leverage  
None of the given options

**58. In which type of market, new securities are traded?**

Select correct option:

**Primary market**  
Secondary market  
Tertiary market  
None of the given options

59. **Which of the following ratios are particularly interesting to short-term creditors?**

Select correct option:

- Liquidity Ratios
- Long-term Solvency Ratios
- Profitability Ratios
- Market Value Ratios

60. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

- Balance Sheet
- Cash Flow Statement
- Owner's Equity Statement

61. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

- Operating activity
- Investing activity
- Financing activity
- None of the given options

62. **me: Quick Ratio is also known as:**

Select correct option:

- Current Ratio
- Acid-test Ratio**
- Cash Ratio

63. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

- Balance Sheet
- Cash Flow Statement
- Retained Earning Statement

64. **A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

- Dividends
- Retained Earnings
- Capital Gain
- None of the given options

65. **Net Income after taxation differs from Net Cash Flow from operations because:**

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

66. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

67. **A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

68. **Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

69. **Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**70. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**71. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**72. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**73. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

**74. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**75. which of the following is not a form of business organization**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**cooperative Society**

**76. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios  
**Long-term Solvency Ratios**  
Asset Management Ratios  
Profitability Ratios

**77. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities  
Income = Fixed Assets - Current Assets  
Income = Revenues - Current Liabilities  
**Income = Revenues - Expenses**

**78. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation  
Interest  
Expenses related to firm's financing of its assets  
**All of the given options**

**79. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600  
Rs. 148,500  
**Rs. 165,000**  
Rs. 225,000  
Solution= $250000 * 34\% = 85000$   
 $250,000 - 85000 = 165000$

**80. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

- Common Stocks
- Preferred Stock
- All of the given options

**81. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios
- Market Value Ratios

**82. In which type of market, used securities are traded?**

Select correct option:

- Primary market
- Secondary market**
- Tertiary market
- None of the given options

**83. Who of the following make a broader use of accounting information?**

Select correct option:

- Accountants
- Financial Analysts lec 2**
- Auditors
- Marketers

**84. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

- Revenue
- Expenses
- Depreciation**
- All of the given options

**85. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**  
Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**86. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period** lec 28

Net Present Value

Average Accounting Return

None of the given options

**87. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**88. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**89. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

**90. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

91. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

92. **Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

93. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnership

Corporation

94. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

95. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

96. **Which of the following is an example of positive covenant?**  
Select correct option:  
**Maintaining any collateral or security in good condition**  
Limiting the amount of dividend according to some formula  
Restricting pledging assets to other lenders  
Barring merger with another firm
97. **Which of the following refers to the difference between the sale price and cost of inventory?**  
Select correct option:  
Net loss  
**Net worth**  
Markup  
Markdown
98. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**  
Select correct option:  
Repayment  
Seniority  
**Call provision**  
Protective covenants
99. \_\_\_\_\_ **shows the sources from which cash has been generated and how it has been spent during a period** of time?  
Select correct option:  
**Income Statement**  
Balance Sheet  
Cash Flow Statement  
Owner's Equity Statement
100. **Which of the following is a cash flow from financing activity?**  
Select correct option:  
Cash outflow to the government for taxes  
**Cash outflow to shareholders as dividends**  
Cash outflow to lenders as interest  
Cash outflow to purchase bonds issued by another company
101. **Which of the following form of business organization is least regulated?**  
Select correct option:  
**Sole-proprietorship**  
General Partnership  
Limited Partnership  
Corporation
102. **The principal amount of a bond at issue is called:**  
Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

103. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

104. When a corporation wishes to borrow from public on a long-term basis, it does so

by issuing or selling:

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

105. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

106. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000.

What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

Asset= liabilities+ capital so 300+500=800,000

107. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

**Corporation**

108. **in which form of Business, owners have limited liability.**

Select correct option:

- sole proprietorship
- partnership
- joint stock company
- none of the above**

109. **Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

- CF from Assets = CF to Creditors - CF to Stockholder
- CF from Assets = CF to Stockholders - CF to Creditors
- CF to Stockholders = CF to Creditors + CF from Assets
- CF from Assets = CF to Creditors + CF to Stockholder**

110. **The difference between current assets and current liabilities is known as:**

Select correct option:

- Surplus Asset
- Short-term Ratio
- Working Capital**
- Current Ratio

111. **A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

- Rs. 14,186
- Rs. 18,256
- Rs. 22,697**
- Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

112. **Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

- Income Statement
- Balance Sheet**
- Cash Flow Statement
- Retained Earning Statement

113. **The principal amount of a bond at issue is called:**

Select correct option:

- Par value**
- Coupon value

Present value of an annuity  
Present value of a lump sum

114. **Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer. **Bond ratings represent an independent assessment of the credit-worthiness of bonds.** None of the given options

115. **Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

116. **Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

117. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.**

**What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

None of the given options

118. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

- Retained Earnings
- Capital Gain
- None of the given options

**119. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

- Financial institutions
- International finance
- Investments

**All of the given options**

**120. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

- Inventory Turnover Ratio
- Receivable Turnover
- Capital Intensity Ratio
- Return on Assets**

**121. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

- Rs. 1,000 because you receive it sooner
- Rs. 1,050 because it is more money
- Either because both options are of equal value

**122. Which of the following terms refers to the use of debt financing?**

Select correct option:

- Operating Leverage
- Financial Leverage**
- Manufacturing Leverage
- None of the given options

b

**123. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

- 8.42 years
- 10.51 years**
- 15.75 years
- 18.78 years

$$6000(1+5\%)^{10.51}=\text{around } 10,000$$

124. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

125. Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

126. Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

127. Product costs include which of the following?

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

128. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$4100 - 3000 = 1100$

129. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

130. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

131. Which of the following term refers to establish of a standard to follow for comparison?

Select correct option:

Benchmarking 48

Standardizing

Comparison

Evaluation

132. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency pg 44

Asset use efficiency

Financial policy

Dividend policy

133. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

5% to 20%

10% to 50%

134. Which of the following refers to a conflict of interest between principal and agent?

Select correct option:

Management Conflict

Interest Conflict

Agency Problem

None of the given options

135. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

136. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

137. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

138. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

139. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.

What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

$$0000 * 100 = 6\%$$

140. Which of the following is the process of planning and managing a firm's long-term investments?  
Select correct option:
- Capital Structuring
  - Capital Rationing
  - Capital Budgeting**
  - Working Capital Management
141. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?  
Select correct option:
- Operating Cash Flows**
  - Investing Cash Flows
  - Financing Cash Flows
  - All of the given options
142. Quick Ratio is also known as:  
Select correct option:
- Current Ratio
  - Acid-test Ratio**
  - Cash Ratio
  - None of the given options
143. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?  
Select correct option:
- Sole-proprietorship
  - Partnership**
  - Corporation
  - None of the given options
144. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.  
Select correct option:
- 20%; 80%**
  - 37%; 63%
  - 63%; 37%
  - 80%; 20%
145. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm  
Select correct option:
- I and II
  - I and III**

II and IV  
I, III, and IV

146. Which of the following is NOT included in a bond indenture?

Select correct option:  
The basic terms of bond issue  
The total amount of bonds issued  
**A personal profile of the issuer**  
A description of the security

147. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**  
Rs. 9,981  
Rs. 14,800  
Rs. 15,869

148. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.  
**Unpaid debt can result in bankruptcy or financial failure.**  
Debt provides the voting rights to the bondholders.  
Corporation's payment of interest on debt is fully taxable.

149. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent  
7.00 percent  
8.45 percent  
**10.0 percent**

150. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity  
Special Annuity  
Annuity Due  
**Perpetuity**

151. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

**152. Which of the following rate makes the Net Present Value (NPV) equal to zero?**

**Select correct option:**

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

**153. Which of the following is the expected rate of return on a bond if bought at its**

**current market price and held to maturity**

**Select correct option:**

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

**154. If a firm uses cash to purchase inventory, its quick ratio will:**

**Select correct option:**

Increase

**Decrease**

Remain unaffected  
Become zero

155. **a firm uses cash to purchase inventory, its current ratio will:**  
Select correct option:

**Increase**  
Decrease  
Remain unaffected  
Become zero

Send

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**Date :25-11-2010**

**ACC 501 Quiz Conference lecture 1 to 18**

**1. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**2. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**3. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

4. **Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

5. **Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

6. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

7. **Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

8. **Which of the following costs are reported on the income statement as the cost of goods**

**sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

9. **Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

**$750000/150000=5$**

**$365/5=73\text{days}$**

10. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

11. **In which type of market, new securities are traded?**

Select correct option:

### Primary market

Secondary market

Tertiary market

None of the given options

12. **Which of the following ratios are particularly interesting to short-term creditors?**

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

13. **shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

14. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction**

**will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

15. **me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

16. **of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

17. **A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

18. **Net Income after taxation differs from Net Cash Flow from operations because:**

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

19. **Which of the following statement shows assets, liabilities, and net worth as of a specific**

date?

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**20. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**21. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**22. Which of the following ratio gives an idea as to how efficient management is at using its**

**assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**23. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**24. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**25. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**26. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

**Market Value Ratios**

27. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

**Positive**

Negative

zero

None of the given options

28. which of the following is not a form of business organization

Select correct option:

sole proprietorship

partnership

joint stock company

**cooperative Society**

29. Which of the following ratios are intended to address the firm's financial leverage?

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

30. The accounting definition of income is:

Select correct option:

Income = Current Assets – Current Liabilities

Income = Fixed Assets – Current Assets

Income = Revenues – Current Liabilities

**Income = Revenues – Expenses**

31. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

32. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 \times 34\% = 85000$

$250,000 - 85000 = 165000$

33. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

**Debt securities or bonds** lec 17

Common Stocks

Preferred Stock

All of the given options

34. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios

Leverage Ratios  
Profitability Ratios  
Market Value Ratios

**35. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**36. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**37. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**39. Which of the following comes under the head of discounted cash flow criteria for capital**

**budgeting decisions?**

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**40. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**41. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**42. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

43. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

44. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction

will be reported on the cash flow statement as a(n):

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

45. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities

of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution= 700000/460000=1.52**

46. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnerhsip

Corporation

47. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

48. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

49. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

50. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Markup

Markdown

51. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

52. \_\_\_\_\_ **shows the sources from which cash has been generated and how it has been spent during a period** of time?

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

53. **Which of the following is a cash flow from financing activity?**

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

54. **Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

55. **The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

56. **Which of the following relationships holds TRUE if a bond sells at a discount?**

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

57. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

### Debt securities or bonds

Common Stocks

Preferred Stock

All of the given options

**58. Which of the following item provides the important function of shielding part of income**

**from taxes?**

Select correct option:

Inventory

Supplies

Machinery

### Depreciation

**59. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

**60. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

### Corporation

**61. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

**62. Which of the following equation is known as Cash Flow (CF) identity?**

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

**63. The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset

Short-term Ratio

### Working Capital

Current Ratio

**64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

**65. Which of the following statement is considered as the accountant's snapshot of firm's**

**accounting** value as of a particular date?

Select correct option:

Income Statement

**Balance Sheet**

Cash Flow Statement

Retained Earning Statement

**66. The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

**67. Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

**68. Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

**69. Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

**70. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.**

**What is**

**the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$$250000 - 150000 / 250000 * 100 = 40\%$$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

**Positive**

Negative

zero

None of the given options

**71. A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

**72. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

**73. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

**74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.**

**Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

**75. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

**76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent**

**compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

**77. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**78. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

79. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

80. **Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

81. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$4100 - 3000 = 1100$

82. **What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

83. **Which of the following cash flow activities are reported in the Cash Flow Statement and**

Income Statement?

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

84. **Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

85. **Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

86. **Rule of 72 for finding the number of periods is fairly applicable to which of the following** range of discount rates?

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

87. **Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

88. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity 63**

Annuity due

Perpetuity

None of the given options

89. **Which of the following area of finance deals with stocks and bonds?**

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

90. **7:03 AM Which of the following is NOT an external use of financial statements information?**

Select correct option:

Evaluation of credit standing of new customer

**Evaluation of financial worth of supplier**

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

**91. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

92. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.**

What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

solution

**Net income =ROA\*total asset**

**Net income=8%\*75000=6000**

**Profit margin=net income/ sales\*100**

**Profit margin**=6000/100000\*100= 6%

**93. Which of the following is the process of planning and managing a firm's long-term investments?**

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

**94. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**95. Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

**96. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to**

**employ which of the following type of business?**

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

**97. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and**

**B will be \_\_ and \_\_ respectively.**

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

**98. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm**

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

**99. Which of the following is NOT included in a bond indenture?**

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

**100. What would be the present value of Rs. 10,000 to be received after 6 years at a**

**discount rate of 8 percent?**

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

**101. Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

**102. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

**103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

### **ACC 501 Mcqs for Final Term**

**1. Which of the following is an example of positive covenant?**

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

**Restricting selling or leasing assets wrong question option d is negative and all is positive example**

Wrong, wrong, wrong question it is unfair discipline

**2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?**

Select correct option:

0.101

0.220

0.667

**0.818**

**Reference:(1-0.45=0.55)**

**=0.45/0.55=0.818**

**3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?**

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

**Rs. 8,960**

**Reference:  $8000 * 12 / 100 = 8960$**

**4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?**

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

**Rs. 71.25**

**Reference:  $D * (1 + g) / (r - g)$**

**$4.75 * (1 + 0.05) / (0.12 - 0.05) = 71.25$**

**5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**

Select correct option:

Semiannually

Quarterly

**Monthly**

Daily

**Reference:  $(1 + APR/m)^m - 1$**

**APR=9**

**M=30**

**$(1 + 9/30)^{30} - 1 = 9.38$**

**6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes

200 votes

300 votes

**400 votes**

**Reference:  $100 * 4 = 400$**

**7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

**Reference:  $6 / 0.15 = 40$**

**8. Which of the following process can be defined as the process of generating earnings from previous earnings?**

Select correct option:

Discounting

**Compounding**

Factorization

None of the given options

**9. Which of the following is the amount of cash we would get if we actually sell an asset?**

Select correct option:

**Market Value**

Book Value

Intrinsic Value

None of the given options

10.

**11. Which of the following financial statement shows both dollars and percentages in the report?**

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

**12. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship

partnership

**joint stock company**

none of the above

**13. Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**

Select correct option:

2.6 Years

**3.1 Years**

3.7 Years

4.1 Years

**14. Which of the following is NOT a shortcoming of Payback Rule?**

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

**None of the given options pg 106**

**15. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds pg 71**

Common Stocks

Preferred Stock

All of the given options

**16. Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

**Government bonds 85**

Zero coupon bonds

Floating-rate bonds

Euro bonds

**17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.**

Select correct option:

Low; higher

High; lower

**High; higher pg 88**

None of the given options

**18. Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by

issuing or selling bonds.

**All of the given options**

19. **Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

**Ordinary perpetuity pg 91**

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

**Collar pg 86**

Limit

Surplus

22. **Internal Rate of Return (IRR) is sometimes referred to as:**

Select correct option:

Simple Interest Rate

Compound Interest Rate

**Economic Rate of Return**

Required Rate of Return

23. **If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?**

Select correct option:

$D_2 = D_1 \times (1 + g)$

$D_2 = D_0 \times (1 + g)^2$

$D_2 = D_0 \times (1 + g)^2$

**All of the given options pg 92**

24. **A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):**

Select correct option:

**mutually exclusive project**

independent project

dependent project

contingent project

25. **A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?**

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

**Rs. 72,000**

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. **Which of the following statement is TRUE regarding debt?**

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure. Pg 78**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

**27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.**

Select correct option:

**Income**

Zero coupon

Floating-rate

Put

**28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.**

Select correct option:

Positive

**Negative pg 80**

Neutral

None of the given options

**29. IRR and NPV rules always lead to identical decisions as long as:**

Select correct option:

Cash flows are conventional

Cash flows are independent

**Cash flows are both conventional and independent pg 110**

None of the given options

**30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**31. Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments pg 116**

Easily communicated and understood

Can be estimated even without knowing the discount rate

**32. In which type of the market, previously issued securities are traded among investors?**

Select correct option:

Primary Market

**Secondary Market pg 100**

Tertiary Market

None of the given options

**33. A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

**34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**

Select correct option:

If Profitability Index  $> 1$ , NPV is Negative (-)

If Profitability Index  $< 1$ , NPV is Positive (+)

**If Profitability Index  $> 1$ , NPV is Positive (+)**

If Profitability Index  $> 1$ , NPV is Zero (0)

35. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period

**Net Present Value pg 118**

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

**Payback Period pg 119**

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

**Net Present Value**

Internal Rate of Return

Profitability Index

39. Which of the following measures the present value of an investment per dollar invested?

Select correct option:

Net Present Value (NPV)

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

**Profitability Index (PI) pg 119**

40. Which of the following is a measure of accounting profit relative to the book value?

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

**Average Accounting Return pg 119**

41. Which one of the following typically applies to preferred stock but not to common stock?

Select correct option:

Dividend yield

**Cumulative dividends**

Voting rights

Tax deductible dividends

42. Treasury notes and bonds are examples of which of the following types of bonds?

Select correct option:

**Government bonds pg 86**

Zero coupon bonds

Floating-rate bonds

Euro bonds

43. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates \_\_\_\_\_

than short term rates reflected by an upward term structure.

Select correct option:

Lower; higher

Higher; lower

**Higher; higher pg 88**

None of the given options

**44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

$60+60=120/1000=12\%$

**45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

**3.00 Years**

3.67 Years

**Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year**

**In which of the following type of annuity, cash flows occur at the beginning of each period?**

Select correct option:

Ordinary annuity

**Annuity due pg 66**

Perpetuity

None of the given options

**46. Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

**Least liquid pg 90**

Highly liquid

**Which of the following is NOT a determinant of term structure?**

Select correct option:

Real rate of interest

**Internal rate of interest pg 88**

Expected inflation

Interest rate risk

**47. Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

**Payback period pg 104**

Accounts Receivable period

m.q .z

**48. In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.

Select correct option:

**Broker pg 100**

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?

Select correct option:

These stocks have not stated liquidating value

**Dividends on these stocks can be cumulative pg 100**

These bonds hold credit ratings quite different from bonds

These stocks have not any kind of priority over common stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

**Zero coupon bonds pg 85**

Floating-rate bonds

Euro bonds

52. An investment will be \_\_\_\_\_ if the IRR doesn't exceeds the required return and \_\_\_\_\_ otherwise.

Select correct option:

Accepted; rejected

Accepted; accepted

Rejected; rejected

**Rejected; accepted pg 109 conceptual**

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index

**Average Accounting Return pg 119**

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

**Ordinary annuity pg 63**

Annuity due

Perpetuity

None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

**Net Present Value (NPV)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

56. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero** pg 104 doubt ask question in mdb

NPV is less than Zero

All of the given options

**57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?**

Select correct option:

Fluctuations Risk

**Interest Rate Risk** pg75

Real-Time Risk

Inflation Risk

**58. All else equal, the market value of a corporate bond is always inversely related to its:**

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

**All of the given options**

**59. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**60. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**61. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**62. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

**63. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

**64. Which of the following refers to the cash flows that result from the firm’s day-to-day activities of producing and selling?**

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**65. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

**66. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

**67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

$750000/150000=5$

$365/5=73\text{days}$

**68. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**69. In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

**70. Which of the following ratios are particularly interesting to short-term creditors?**

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

**71. shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

**72. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

**73. me: Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

**74. of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

**75. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**76. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**77. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**79. Which of the following is an example of capital spending?**

Select correct option:

**Purchase of Fixed Assets**

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

**80. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**81. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

## Financial Analysts

Auditors

Marketers

**82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?**

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

## Market Value Ratios

**83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

Positive

Negative

zero

None of the given options

**84. which of the following is not a form of business organization**

Select correct option:

sole proprietorship

partnership

joint stock company

## cooperative Society

**85. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

## Long-term Solvency Ratios

Asset Management Ratios

Profitability Ratios

**86. The accounting definition of income is:**

Select correct option:

Income = Current Assets - Current Liabilities

Income = Fixed Assets - Current Assets

Income = Revenues - Current Liabilities

## Income = Revenues - Expenses

**87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

## All of the given options

**88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

Solution= $250000 * 34\% = 85000$

$250,000 - 85000 = 165000$

**89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds lec 17**

Common Stocks

Preferred Stock

All of the given options

**90. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**91. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts lec 2**

Auditors

Marketers

**92. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

**94. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period lec 28**

Net Present Value

Average Accounting Return

None of the given options

**95. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**96. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**97. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

98. Which of the following issue is NOT covered by “Investment” area of finance?

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

**Operating activity**

Investing activity

Financing activity

None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

**1.52**

**Solution=  $700000/460000=1.52$**

101. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

**General Partnership** pg 6

Limited Partnerhsip

Corporation

102. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

**Ordinary Annuity**

Special Annuity

Annuity Due

Perpetuity

104. Which of the following is an example of positive covenant?

Select correct option:

**Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. Which of the following refers to the difference between the sale price and cost of inventory?

Select correct option:

Net loss

**Net worth**

Markup

Markdown

**106. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

**108. Which of the following is a cash flow from financing activity?**

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

**109. Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

**110. The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

**111. Which of the following relationships holds TRUE if a bond sells at a discount?**

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

**112. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

**113. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

Inventory

Supplies  
Machinery

### Depreciation

114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

sol

**Asset= liabilities+ capital so 300+500=800,000**

115. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

### Corporation

116. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship

partnership

joint stock company

**none of the above**

117. Which of the following equation is known as Cash Flow (CF) identity?

Select correct option:

CF from Assets = CF to Creditors - CF to Stockholder

CF from Assets = CF to Stockholders - CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

118. The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

### Working Capital

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**solution**

$40000 * 1 / (1 + 0.12)^5 = 22697.07$

120. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

### Balance Sheet

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

**122. Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

**123. Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

**124. Which of the following is NOT an internal use of financial statements information?**

Select correct option:

**Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

**None of the given options**

**125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**Solution**

Net income-dividend / net income \*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

**Positive**

Negative

zero

None of the given options

**126. A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

**127. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

**128. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

**129. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

**130. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

b

**131. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

**132. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**133. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

**134. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

Armaan: b

**135. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**136. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**

**Select correct option:**

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

$4100 - 3000 = 1100$

**137. What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

**7.00 percent**

**7.12 percent**

7.19 percent

7.23 percent

**138. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

**139. Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking 48**

Standardizing

Comparison

Evaluation

**140. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency pg 44**

Asset use efficiency

Financial policy

Dividend policy

**141. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**

Select correct option:

2% to 8%

4% to 25%

**5% to 20%**

10% to 50%

**142. Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

Management Conflict

Interest Conflict

**Agency Problem**

None of the given options

**143. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

### Ordinary annuity 63

Annuity due

Perpetuity

None of the given options

144. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

International finance

### Investments

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial statements information?

Select correct option:

Evaluation of credit standing of new customer

### Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

### All of the given options

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%

solution

Net income = ROA \* total asset

Net income = 8% \* 75000 = 6000

Profit margin = net income / sales \* 100

Profit margin = 6000 / 100000 \* 100 = 6%

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

### Capital Budgeting

Working Capital Management

149. Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?

Select correct option:

### Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

### Acid-test Ratio

Cash Ratio

None of the given options

**151. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?**

**Select correct option:**

Sole-proprietorship

**Partnership**

Corporation

None of the given options

**152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be \_\_ and \_\_ respectively.**

**Select correct option:**

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

**153. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm**

**Select correct option:**

I and II

**I and III**

II and IV

I, III, and IV

**154. Which of the following is NOT included in a bond indenture?**

**Select correct option:**

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

**155. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**

**Select correct option:**

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

**156. Which of the following statement is TRUE regarding debt?**

**Select correct option:**

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

**157. The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**

**Select correct option:**

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

**158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

**Select correct option:**

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

**Rs. 400,000**

**ROTA = N.P / Total Assets**

**4 % = N.P / 500,000**

**4% \* 500,000 = N.P**

**N.P = Rs. 20,000**

**N.P Margin = N.P / Sales**

**5 % = 20,000 / Sales**

**5% \* Sales = 20,000**

**Sales = 20,000 / 5%**

**Sales = 400,000**

160. **Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR) pg 109**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

Current Yield

**Yield To Maturity**

Coupon Yield

Capital Gains Yield

162. **If a firm uses cash to purchase inventory, its quick ratio will:**

Select correct option:

Increase

**Decrease**

Remain unaffected

Become zero

163. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

**Increase**

Decrease

Remain unaffected

Become zero