**ACC501 Midterm Solved Quiz No-1 Fall 2012**

Question # 1 of 10 ( Start time: 07:10:45 PM )  Total Marks: 1

The conflict of interest between stockholders and management is known as:

Select correct option:

Agency problem

Interest conflict

Management conflict

**Agency cost**

Question # 2 of 10 ( Start time: 07:12:12 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%

Question # 3 of 10 ( Start time: 07:12:49 PM )  Total Marks: 1

The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

Question # 4 of 10 ( Start time: 07:14:13 PM )  Total Marks: 1

How 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

Question # 5 of 10 ( Start time: 07:15:43 PM )  Total Marks: 1

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

Question # 6 of 10 ( Start time: 07:16:10 PM )  Total Marks: 1

In case of international business which of the given factor(s) must be considered?

Select correct option:

Role of foreign exchange

Balance of payments

Attitude of Governments

**All of the given options shez corredt**

Question # 7 of 10 ( Start time: 07:17:40 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

Question # 8 of 10 ( Start time: 07:18:08 PM )  Total Marks: 1

SNT Inc. has net income of Rs. 300,000. How much is kept as retained earnings if the firm has a dividend payout ratio of 40%?

Select correct option:

Rs. 30,000

**Rs. 120,000**

Rs. 180,000

Rs. 200,000

Question # 9 of 10 ( Start time: 07:19:25 PM )  Total Marks: 1

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

Question # 10 of 10 ( Start time: 07:20:26 PM )  Total Marks: 1

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

|  |
| --- |
| **ACC501 Midterm Solved Quiz No-1 Fall 2012** |
| **1. The difference between the return on a risky investment and that on a risk-free investment.** |
| 1. Risk Return
2. **Risk Premium**
3. Risk Factor
4. None of the above
 |
| **2. A group of assets such as stocks and bonds held by an investor.** |
| 1. **Portfolio**
2. Capital Structure
3. Budget
4. None of the above
 |
| **3. If the variance or standard deviation is larger then the spread in returns will be:** |
| 1. Less
2. **More**
3. Same
4. None of the Above
 |
| **4. The following risk is entirely wiped out by Diversification.** |
| 1. Systematic Risk
2. **Unsystematic Risk**
3. Portfolio Risk
4. Total Risk
 |
| **5. The objective for using the concept of Diversification is to :** |
| 1. Minimize the Risk
2. Maximize the return
3. **A & B**
4. None of the Above
 |
| **6. While studying the relationship in risk and return, It is commonly known that:** |
| 1. Higher the risk, lower the return
2. Lower the risk, higher the return
3. **Higher the risk, higher the return**
4. None of the above
 |
| **7. This type of risk affects almost all types of assets.** |
| 1. **Systematic Risk**
2. Unsystematic Risk
3. Total Risk
4. Portfolio Risk
 |
| **MCQ # 08 – 10 are based on the following data:** |
| **Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).** |
| **8. According to the given data, the Capital Gain will be:** |
| 1. 10,500
2. **7,500**
3. 10,000
4. 7,000
 |
| **9. According to the given data, the Dividend yield will be:** |
| 1. 8.50 %
2. 6.25%
3. **8.00%**
4. 6.67%
 |
| **10. According to the given data, Total Percentage Returns will be:** |
| 1. 20%
2. **28%**
3. 32%
4. 35%
 |

**ACC501 Midterm Solved Quiz No-1 Fall 2012**

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

1. Treasury notes and bonds are:
	1. Default free
	2. Taxable
	3. Highly liquid
	4. **All of the given options**

1. The difference between an investment’s market value and its cost is called the \_\_\_\_\_\_\_\_\_\_ of the investment.
	1. **Net present value**
	2. Economic value
	3. Book value
	4. Future value

1. When real rate is high, all the interest rates tend to be \_\_\_\_\_\_\_.
	1. **Higher**
	2. Lower
	3. Constant
	4. None of the given options

1. \_\_\_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder’s share.
	1. Cumulative voting
	2. Straight voting
	3. **Proxy voting**
	4. None of the given options

1. The payment of the dividend is at the discretion of the:
	1. Chairman
	2. **Board of directors**
	3. Shareholders
	4. Stakeholders

1. Based on \_\_\_\_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
	1. Profitability index
	2. Payback period
	3. **Internal rate of return**
	4. Net present value

1. If two investments are mutually exclusive, then taking one of them means that:
	1. **We cannot take the other one**
	2. The other is pending for the next period
	3. The projects are independent
	4. None of the given options

1. Profitability index (PI) rule is to take an investment, if the index exceeds\_\_\_\_\_\_:
	1. -1
	2. 0
	3. **1**
	4. All of the given options

1. Average Accounting Return is a measure of accounting profit relative to:
	1. **Book value**
	2. Intrinsic value
	3. Cost
	4. Market value

1. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
	1. Erosion
	2. Piracy
	3. Cannibalism
	4. **All of the given options**

**ACC501 Midterm Solved Quiz No-1 Fall 2012**

**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

1. **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**

1. **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

1. **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

1. **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

1. **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.

1. **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

1. **--------------- 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

1. **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.

1. **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

**ACC501 Midterm Solved Quiz No-1 Fall 2012**

**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%**

1. 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%

1. 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

1. ---------------- 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

1. 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

1. 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%

1. 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

1. During 2005 a merchandize sales company had cash sales of $56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were13% of total sales. What was the average collection period of the company during 2005?

a)      62 days

b)      18 days

**c)** **56 days**

d)      19 days

1. 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

1. 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

**ACC501 Midterm Solved Quiz No-1 Fall 2012**

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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.** |
| Sunk cost**Opportunity cost**Financing costAll 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?** |
| 13.07 %15.67 %16.00 %**18.80 %** |
| **3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.** |
|  **Portfolio**DiversificationStock BundleNone of the given options |
| **4. Which of the following measures the present value of an investment per dollar invested?** |
| Net Present Value (NPV)**Profitability Index (PI)**Average Accounting Return (AAR)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:** |
| 37.5 %47.5 %**62.5 %**72.5 % |
| **6. A risk that influences a large number of assets is known as:** |
| Systematic RiskMarket RiskNon-diversifiable  Risk**All of the given options** |
| **7. Which of the following risk can be eliminated by diversification?** |
| Systematic Risk**Unsystematic Risk**A & BNone 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:** |
| **2.6 Years**3.1 Years3.6 Years4.1 Years |
| **9. A model which makes an assumption about the future growth of dividends is known as:** |
| Dividend Price Model**Dividend Growth Model**Dividend Policy ModelAll of the given options |
| **10. Which of the following is not a quality of IRR ?** |
| Most widely used**Ideal to rank the mutually exclusive investments**Easily communicated and understoodCan be estimated even without knowing the discount rate |

**ACC501 Midterm Solved Quiz No-1 Fall 2012**

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| --- |
| ***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.** |
| Ordinary Annuity**Perpetuity**DividendInterest |
| **2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?** |
| 15.00 %15.34 %**15.87 %**16.42 % |
| **3. A bond represents a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ made by an investor to the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.** |
| loan; receiverdividend; issuerdividend, receiver**loan; issuer** |
| **4. When the interest rates fall, the bond is worth \_\_\_\_\_\_\_\_\_\_\_\_\_\_.** |
| **More**LessSameAll 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?**   |
| 30 %50 %**70 %**90 % |
| **6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:** |
| Increase Profit MarginIncrease Total Assets TurnoverSell new shares**All of the given options.** |
| **7. \_\_\_\_\_\_\_\_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.** |
| **Present Value**Future ValueCapital GainNet 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?** |
| Rs. 319.45Rs. 390.75**Rs. 419.45**Rs. 463.75 |
| **9. The sensitivity of Interest Rate Risk of a bond directly depends upon:** |
| Time to maturityCoupon rate**A and B**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?** |
| **8 %**10 %12 %14 % |

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

Question # 1 of 10 ( Start time: 07:10:45 PM )  Total Marks: 1

The conflict of interest between stockholders and management is known as:

Select correct option:

Agency problem

Interest conflict

Management conflict

**Agency cost**

Question # 2 of 10 ( Start time: 07:12:12 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%

Question # 3 of 10 ( Start time: 07:12:49 PM )  Total Marks: 1

The difference between current assets and current liabilities is known as:

Select correct option:

Surplus Asset

Short-term Ratio

**Working Capital**

Current Ratio

Question # 4 of 10 ( Start time: 07:14:13 PM )  Total Marks: 1

How 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

Question # 5 of 10 ( Start time: 07:15:43 PM )  Total Marks: 1

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

Question # 6 of 10 ( Start time: 07:16:10 PM )  Total Marks: 1

In case of international business which of the given factor(s) must be considered?

Select correct option:

Role of foreign exchange

Balance of payments

Attitude of Governments

**All of the given options shez corredt**

Question # 7 of 10 ( Start time: 07:17:40 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

Question # 8 of 10 ( Start time: 07:18:08 PM )  Total Marks: 1

SNT Inc. has net income of Rs. 300,000. How much is kept as retained earnings if the firm has a dividend payout ratio of 40%?

Select correct option:

Rs. 30,000

**Rs. 120,000**

Rs. 180,000

Rs. 200,000

Question # 9 of 10 ( Start time: 07:19:25 PM )  Total Marks: 1

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

Question # 10 of 10 ( Start time: 07:20:26 PM )  Total Marks: 1

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

|  |
| --- |
| Choose the Most Appropriate Answer among the given choices. |
| **ACC501 Midterm Solved Quiz No-2 Fall 2012**1. The difference between the return on a risky investment and that on a risk-free investment. |
| A. Risk Return**B. Risk Premium             (Correct)**C. Risk FactorD. None of the above  |
| 5. The objective for using the concept of Diversification is to : |
|  A. Minimize the RiskB. Maximize the return**C. A & B             (Correct)**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 returnB. Lower the risk, higher the returnC. Higher the risk, higher the return             (Correct) |
| D. None of the above  |
| 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). |
|    According to the given data, the Capital Gain will be: |
| A. 10,500**B. 7,500                 1500\*5(gain per share)= 7500            (Correct)**C. 10,000D. 7,000  |
| . According to the given data, the Dividend yield will be: |
| A. 8.50 %B. 6.25%**C. 8.00%           1500\*25=37500/3000=0.08è8%            (Correct)**D. 6.67% |
| . According to the given data, Total Percentage Returns will be: |
| A. 20%B. 28%   (48000-37500)/37500 = 0.28è28%            (Correct)C. 32%D. 35%**ACC501 Midterm Solved Quiz No-2 Fall 2012**  |

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     page 11            (Correct)

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         page 31            (Correct)

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. (Correct)

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    .            (Correct)

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         (1+0.18/4)8 è 1.42215             (Correct)

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             (Correct)

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             (Correct)

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%            (1+.20/12)12 – 1è 0.219 è 21.99%             (Correct)

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                  Interest= 2000000\*0.10= 200000

Earning after interest = 500000 – 200000= 300000\*0.32= 96000

Incase if debt is not taken then tax would be= 500000\*.32 = 160000

Difference = 160000 – 96000

               = 64000

C. Rs.72, 000

D. Rs.74, 000

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

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                       16/0.25= 64            (Correct)

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             (Correct)

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%             (Correct)

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             (Correct)

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             (Correct)

c. Financial market

d. Capital market

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             (Correct)

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             (Correct)

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

a. Opportunity cost

b. Sunk cost           not sure            (Correct)

c. Decremented 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            (Correct)

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

Select the correct option form the following choices:

1. Treasury notes and bonds are:

a. Default free                page 85             (Correct)

b. Taxable

c. Highly liquid

d. All of the given options

8. Profitability index (PI) rule is to take an investment, if the index exceeds\_\_\_\_\_\_:

a. -1

b. 0

c. 1             (Correct)

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         page 164            (Correct)

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             (Correct)

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                 100000\*.03 = 3000 è 100000- 3000 = 97000             (Correct)

c) 103,000

d) 50,000

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

a) Cash discount             (Correct)

b) Quantity discount

c) Float discount

d) All of the given options

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%            2/3=0.667            (Correct)

b) 33.34%

c) 0%

d) 60%

8 . A major disadvantage of the corporate form of organization is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Inability of the firm to raise large sums of additional capital

Double taxation of dividends            (Correct)

Limited liability of shareholders

Limited life of the corporate firm

pplA� ye�pI�enue
Expenses
Depreciation
All of the given options

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

Suppose you can earn a 7.2 percent interest rate per year. According to the rule of 72, it will take approximately \_\_\_\_\_\_\_\_\_\_\_ years to double your money.

5.00

7.20

10.00                             72/7.2= 10            (Correct)

100.0

Rahim Corporation has a cash coverage ratio of 7 times. It’s earning before interest and tax is Rs.900 million. It has total assets of Rs.3 billion. The company has a policy of charging 5 % annual depreciation. By using the above information, what would be the interest expense for the year?

90 million

120 million

140 million

150 million                  3 B \* 0.05 = 150000000 è             (Correct)

       (150000000+900000000)/7è150 million

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

Lets Tulips Corporation has return on assets for the year is 14 % .The Corporation has a policy to retain 40 percent of their income. Then the Corporations internal growth rate would be

\_\_\_\_\_\_\_\_\_\_\_.

5.246 %

5.754 %

5.932 %

6.589 %

If the interest rate is 24 % compounded quarterly, what would be the 5-year discount factor?

3.10585

3.20714            (Correct)

3.50152

3.80153

The bonds are classified as \_\_\_\_\_\_\_\_\_\_\_ if the maturity of the bond is less than 10 years when issued.

Term finance certificate

Debentures

Notes               page 79            (Correct)

None of the given options

\_\_\_\_\_\_\_\_\_\_\_\_ is a kind of bond that allows the holder to force the issuer to buy the bond back at a stated price.

Convertible bond

Floating rate bond.

Put bond               page 86            (Correct)

None of the given option

Financial institutions facilitate individuals and firms in:

? Borrowing

? Lending

? Pooling of risks

? All of the given options            (Correct)

-------------- are issued by state and local governments.

? Treasury bonds

? Municipal bonds

? Corporate bonds

? Personal bonds

You are expecting to receive Rs.5000 in 3 years. If the interest rate increases, the

present value of that future amount to you would:

? Fall            (Correct)

? Rise

? remain unchanged

? cannot be determined without more information

\_\_\_\_\_\_\_\_\_\_\_ is not the function of the treasurer:

? Preparation of financial statements

? Investor relationships

? Cash management

? Obtaining finances          doubt

Sara is interested in purchasing Tom's factory. Since Sara is a poor negotiator, she hires Maria to negotiate a purchase price. Identify the parties to this transaction from the given options, according to agency theory:

? Sara is the agent.

? Maria is the principal.

? Tom is the agent and Maria is the principal

? Sara is the principal and Maria is the agent            (Correct)

is not an advantage of separation of ownership and management of corporations.

? Corporations can exist forever.

? Facilitate transfer of ownership without affecting the operations of the firm

? Hire professional managers

? Incur agency costs            (Correct)

A firm is having difficulty in controlling its operating expenses. Which ratio category in given options will most directly reflect this problem?

? Liquidity

? Profitability            (Correct)

? Market value

? Turnover

A firm's investment decision is also called the:

? financing decision

? capital budgeting decision       page 05            (Correct)

? liquidity decision

? debt financing

Suppose a Corporation has a taxable income of Rs.50000 and the tax amount

calculated is as given below:

Rs.30000 x 5%                        = Rs.1500

(Rs.40000 – 30000) x 10%      = 1000

(Rs.50000 – 40000) x 15%      = 1500

Rs.4000

Total tax amount is Rs.4000. Average tax rate is Rs.4000 / 50000 = 8.0%. Marginal tax

rate will be:

? 39%

? 34%

? 15%            (Correct)

? 25%

In context of inflation and returns, the relationship between real and nominal returns is described by:

? Fisher Effect            (Correct)

? Ricardo Effect

? Robbins Effect

? Fredrick Effect

The Ratios showing the ability of a firm to pay its bills in short-run are called:

? Leverage Ratios

? Liquidity Ratios            (Correct)

? Profitability Ratios

? Market Value Ratios

Evaluating the size, timing and risk of future cash flows is the essence of :

? Capital Budgeting              page 04            (Correct)

? Capital Structure

? Inventory Control

? None of the given options

Sumi Corporation is dealing in furniture industry. It has an equity multiplier of 1.78

times. The debt to equity ratio would be:

? 0.38 times

? 0.58 times

? 0.78 times       page 38            (Correct)

? 0.98 times

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

? Primary Market

? Secondary Market            (Correct)

? Tertiary Market

? None of the given options

SNT Corporation paid Rs. 28,900 as tax in 2006. If the tax rate was 34%, what was the taxable income of the corporation during 2006?

? Rs. 90,000

? Rs. 85,000                 28900/0.34 è 85000            (Correct)

? Rs. 65,000

? Rs. 77,000

\_\_\_\_\_\_\_\_\_\_\_\_\_\_ pays no coupon at all and is offered at a price that is much lower than its stated value.

? Government Bond

? Floating Rate Bond

? Zero Growth Bond        if we say it zero coupon bond       page 85           (Correct)

? None of the given options

Which of the following statement provides a financial summary of the firm’s operating results during a specified period.

? Balance Sheet

? Income Statement            (Correct)

? Cash Flow Statement

? Retained Earning Statement

Depreciation expense does not reflect a cash outflow but still shown as an expense on the income statement to serve as a:

? Cash inflow

? Cash outflow

? Tax Shield        page 22            (Correct)

? Interest Shield

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

? Taxability premium       page 90            (Correct)

? Inflation premium

? Interest Rate Risk Premium

? None of the given options

If you invest Rs. 150 in a bank on an interest rate of 14%. How much will you have in your account after 5 years ?

? Rs. 78

? Rs.163

? Rs. 207

? Rs. 289            (Correct)

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

? True

? False            (Correct)

A dollar in hand today is worth more than a dollar promised at some time in future.

? True            (Correct)

? False

Profit Margin is calculated by dividing Net Income over Sales.

? True      page 42            (Correct)

? False

While making Common Size Statements, Balance sheet items are shown as a percentage of total liabilities.

? True      page 31            (Correct)

? False

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

1.Present value of all the cash inflows can be calculated by compounding each cash flow separately.

True

False            (Correct)

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            (Correct)

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

A. Rs. 29,454            (Correct)

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            (Correct)

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            (Correct)

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            (Correct)

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            (Correct)

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            (Correct)

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            (Correct)

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%            (Correct)

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

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

1. **Time interest earned            (Correct)**
2. Cash coverage ratio
3. Profit margin ratio

 4. 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?

1. Return on short as well as long term investments
2. Return on equity and return on debt
3. **Return on equity and profit margin             (Correct)**

4. 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?

1. Increase
2. **Decrease                                 (Correct)**
3. Remain unchanged

 4. 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 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_?

1. 0.38 times
2. 0.58 times
3. **0.78 times            (Correct)**

 4. 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?

1. Rs. 2.5 million
2. Rs. 3 million
3. Rs. 3.5 million

 **4. Rs.4.5 million            (Correct)**

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 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

1. 9.414 %
2. 10.414 %
3. 11.412 %
4. **12.414 %                                            18/1.45            (Correct)**

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?

1. Rs.150 millions
2. Rs.250 millions
3. **Rs.350 millions 0.3=150/N.IèN.I=500million \*.70=350            (Correct)**

 4. 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?

1. 12.29%
2. **14.29%                        I.G.R= ROA\*b/(1-ROA)\*b            (Correct)**
3. 16.29%

4 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 %                                                 ROE x b            (Correct)**

1. 35 %
2. 29%

 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            (Correct)**

d. Rs.281.415 millions

**ACC501 Midterm Solved Quiz No-2 Fall 2012**

1. ROE in DuPont identity is affected by:
	1. Operating efficiency
	2. Asset usage efficiency
	3. Financial leverage
	4. **All of the given options             (Correct)**
2. A decrease in the percentage of net income paid out as a dividend, will increase the:
	1. Return on assets ratio
	2. **Retention ratio            (Correct)**

 3. Leverage ratio

 4. Profit margin

1. Which of the following does not change Current ratio of a business:
	1. Efficient usage of current assets
	2. Change in the nature of the firm
	3. Change in Accounting method of the firm

 4.**Change in the management of the firm            (Correct)**

1. Present value factor is:
	1. (1+r) t
	2. (1-r) t
	3. **1/ (1+r) t            (Correct)**

 4.1/ (1+r) 1/t

1. Depreciation expense is:
	1. **Operating expense            (Correct)**
	2. Investing expense
	3. Financing expense

 4.All of the given options

1. Internal growth rate tell how rapidly:
	1. **The firm grows            (Correct)**
	2. Sales of the firm grows
	3. Profit of the firm grows

 4. None of the given options

1. You can determine the number of periods (n) in a present value calculation, if you know:
	1. Future amount
	2. Present value
	3. Interest rate

 **4.All of the given options             (Correct)**

1. Which one of the present value factor is larger?
	1. **PV of 1 factor for 10%            (Correct)**
	2. PV of 1 factor for 12%
	3. Both have the same effect

 4.It cannot be determined

1. If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?
	1. 5.27 years
	2. 6.27 years
	3. **7.2 7 years            (Correct)**
		1. ears

1. The future value of first Rs. 100 in 2 years at 8% discount is:
	1. **Rs. 116.64            (Correct)**
	2. Rs. 111.64
	3. Rs. 164.64

 4. Rs. 164.61