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FIN622 Final Term Papers By Waqar (File 1)

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Question No : 1 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statements is TRUE regarding Profitability Index?

Answer (Please select your correct option)

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

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Question No : 2 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 3 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 4 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following refers to the budgetary constraint placed by a firm on its investment projects?

Answer (Please select your correct option)

- Capital rationing
- Working capital management
- Cash budgeting
- None of the given options

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Question No : 5 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 6 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

- Normal stocks
- Aggressive stocks
- Defensive stocks
- Income stocks

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Question No : 7 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is a necessary condition for issuing shares through Initial Public Offerings (IPO's)?

Answer (Please select your correct option)

- The firm must have a stable dividend policy
- The firm must have a low cost of capital
- The firm must have a low level of debt
- The firm must be listed on the stock exchange

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Question No : 8 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

- Stock Dividend
- Cum Dividend
- Ex Dividend
- Extra Dividend

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Question No : 9 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 10 of 60 Marks: 1 (Budgeted Time 1 Min)

Which one of the following statements is CORRECT regarding residual dividend policy?

Answer (Please select your correct option)

- Shareholders are paid dividend from capital
- Dividend are paid after meeting all the financial needs of the firm
- The management sets a fixed payout ratio
- Shareholders are paid fixed dividend every year

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Question No : 11 of 60 Marks: 1 (Budgeted Time 1 Min)

Suppose that the sale (usage rate) on an item gets doubled. The EOQ (Economic Order Quantity) for that item should be:

Answer (Please select your correct option)

- Halved
- Unaffected
- Decreased
- Increased

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Question No : 12 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statements does not apply to the factoring of accounts receivable?

Answer (Please select your correct option)

- The firm can usually draw on its account with the factor before the receivables are collected, although it will be charged interest on the amount borrowed.
- The factor usually relieves the firm of credit checking and collection expenses.
- The typical factoring arrangement is continuous.
- The firm is always liable for any receivables not collected by the factor.

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Question No : 13 of 60 Marks: 1 (Budgeted Time 1 Min)

Employees' buyout occurs through which of the following?

Answer (Please select your correct option)

- Employee stock ownership plan
- Employees' dividend scheme
- Employee empowerment scheme
- Employee long-term benefit scheme

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Question No : 14 of 60 Marks: 1 (Budgeted Time 1 Min)

Which one of the following statements is CORRECT regarding Option?

Answer (Please select your correct option)

- An option creates an obligation for the holder
- An option creates a right and not the obligation for the holder
- Option seller is the option holder
- Option writer is the option holder

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Question No : 15 of 60 Marks: 1 (Budgeted Time 1 Min)

All of the following are true regarding the cash flow statement EXCEPT:

Answer (Please select your correct option)

- Cash outflows are shown in parentheses to indicate that payments must be subtracted
- This statement explains the causes of the change in the cash balance
- This statement reports information as of a certain date and is, therefore, dated like the balance sheet
- This statement classifies cash transactions as operating, investing, or financing

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Question No : 16 of 60 Marks: 1 (Budgeted Time 1 Min)

A(n) _____ is a payment of additional shares to shareholders in lieu of cash.

Answer (Please select your correct option)

- Stock split
- Stock dividend
- Extra dividend
- Regular dividend

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Question No : 17 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 18 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following are the primary sources of capital to the firm?

Answer (Please select your correct option)

- Net income, Retained earnings and Bank loans
- Bonds, Preferred stock and Common stock
- Operating profits, Extraordinary gains and Dividends
- Amortization cash flow, Net income and Retained earnings

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Question No : 19 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 20 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

- Technical analysis
- Fundamental analysis
- Common size analysis
- Ratio analysis

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Question No : 21 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following refers to the profit that results when a financial asset is sold above its purchase price?

Answer (Please select your correct option)

- Capital gain
- Capital dividend
- Capital premium
- Capital appreciation

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Question No : 22 of 60 Marks: 1 (Budgeted Time 1 Min)

The term "Valuation" covers which of the following tasks?

Answer (Please select your correct option)

- Estimating the worth of an asset
- Estimating the value of a security
- Estimating the worth of a business
- All of the given options

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Question No : 23 of 60 Marks: 1 (Budgeted Time 1 Min)

Mr. Asad buys inventory on credit on Jan. 01, 2009 worth Rs 10,000 settle the creditor on Mar. 01, 2009. After a month (on Apr. 01, 2009), a debtor buys finished goods Rs. 14,000 and pays for that on May 15, 2009. What is the accounts receivable period in the given scenario?

Answer (Please select your correct option)

- 45 days
- 60 days
- 90 days
- 120 days

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Question No : 24 of 60 Marks: 1 (Budgeted Time 1 Min)

Mr. Joseph Steve has changed the working capital policy of his company recently. As a result, the liquidity for the company has decreased but an increase in profitability has been observed alongside. From this information we can conclude that the company must have changed his working capital policy from _____ to _____.

Answer (Please select your correct option)

- Conservative, Aggressive
- Aggressive, Moderate
- Aggressive, Conservative
- None of the given options

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Question No : 25 of 60 Marks: 1 (Budgeted Time 1 Min)

When the firm considers working capital management, the trade-off between risk and return is affected by all of the following EXCEPT:

Answer (Please select your correct option)

- The pattern of cash borrowing needs of the firm
- The difference between long-term and short-term interest rates
- The ratio of cash to marketable securities
- The debt maturity schedule

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Question No : 26 of 60 Marks: 1 (Budgeted Time 1 Min)

In inventory management system, which of the following is considered as "the interest foregone on money invested in inventory"?

Answer (Please select your correct option)

- Holding cost
- Stock out cost
- Reorder cost
- Safety cost

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Question No : 27 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is the correct definition for "spread" in cash management?

Answer (Please select your correct option)

- The difference between upper limit and lower limit of cash balances
- The difference between optimal cash balance and Nominal Cash balance
- The difference between opening cash balance and ending cash balance
- The difference between optimal cash balance and ending cash balance

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Question No : 28 of 60 Marks: 1 (Budgeted Time 1 Min)

According to Miller-Orr Model for cash management, the company will invest the surplus to bring down the cash balance to return point when:

Answer (Please select your correct option)

- Cash balance reaches lower limit
- Cash balance reaches to return point
- Cash balance remains same
- Cash balance reaches upper limit

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Question No : 29 of 60 Marks: 1 (Budgeted Time 1 Min)

In inventory management system, which of the following is considered as the storage cost of inventory?

Answer (Please select your correct option)

- Reorder cost
- Stock out cost
- Safety cost
- Carrying cost

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Question No : 30 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following best represents the optimal economic order quantity (EOQ), where total usage of the inventory item is 200,000 units for the planning period, the cost per order is Rs.280 and the carrying costs per unit for each period is Rs.2?

Answer (Please select your correct option)

- 6,000 units
- 4,243 units
- 5,560 units
- 7,483 units

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Question No : 31 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following costs are associated with granting credit to the customers?

Answer (Please select your correct option)

- The return on receivables
- The losses from customers' default
- The collection and credit management cost
- All of the given options

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Question No : 32 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is(are) required to be decided while considering acquisition?

Answer (Please select your correct option)

- Whether shares or assets to be purchased
- Type of consideration
- Share valuation issues
- All of the given options

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Question No : 33 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statements best describes the anti-takeover tool of "Poison pill"?

Answer (Please select your correct option)

- A plan or tactic intended to make a hostile corporate takeover prohibitively expensive.
- The target company defends itself by threatening to take over the acquirer and begins buying its common shares.
- The target company makes significant efforts to resist a takeover bid e.g. by a major acquisition, issue new shares.
- None of the given options

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Question No : 34 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statements best describes the anti-takeover tool of "Pac-man"?

Answer (Please select your correct option)

- A plan or tactic intended to make a hostile corporate takeover prohibitively expensive.
- The target company defends itself by threatening to take over the acquirer and begins buying its common shares.
- The target company makes significant efforts to resist a takeover bid e.g. by a major acquisition, issue new shares.
- None of the given options

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Question No : 35 of 60 Marks: 1 (Budgeted Time 1 Min)

In which of the following forms of acquisition, the firm is acquired by the managers of an outside firm?

Answer (Please select your correct option)

- Management Buyout
- Management Buy-In
- Leverage Buyout
- None of the given options

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Question No : 36 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is NOT among the categories of foreign risk?

Answer (Please select your correct option)

- Transaction exposure
- Translation exposure
- Local exposure
- Economic exposure

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Question No : 37 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is a standard contract between buyer and seller in which the buyer has a binding obligation to buy a fixed amount, at a fixed price and on a fixed date of some underlying security?

Answer (Please select your correct option)

- Currency option
- Currency future
- Indenture
- None of the given options

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Question No : 38 of 60 Marks: 1 (Budgeted Time 1 Min)

Minimum price movement of a future contract is termed as:

Answer (Please select your correct option)

- Float
- Spread
- Tick
- None of the given options

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Question No : 39 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is(are) used for hedging against the interest rate risk?

Answer (Please select your correct option)

- Forward rate agreements
- Interest rate future
- Interest rates options
- All of the given options

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Question No : 40 of 60 Marks: 1 (Budgeted Time 1 Min)

An investor buys 5 options on shares of at a price of Rs 50 per share. Each option consists of 100 shares and premium paid is Rs. 2 per share. What would be the total option cost for investor if the share price is Rs. 55 at the expiry of option?

Answer (Please select your correct option)

- Rs. 1,000
- Rs. 1,500
- Rs. 2,500
- Rs. 25,000

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Question No : 41 of 60 Marks: 1 (Budgeted Time 1 Min)

In the calculations of Interest Rate Option, effective interest is computed by:

Answer (Please select your correct option)

- Adding net interest expense and loan amount
- Subtracting loan amount from net interest expense
- Multiplying loan amount from net interest expense
- Dividing net interest expense by the loan amount

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Question No : 42 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is a series of borrower option that sets a maximum interest rate for a medium term loan?

Answer (Please select your correct option)

- Interest rate limit
- Interest rate cap
- Interest rate floor
- None of the given options

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Question No : 43 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is the risk of loss of control, business may be taken over by the local government or intervention and interference by the local authorities?

Answer (Please select your correct option)

- Interest rate risk
- Financial risk
- Confiscation risk
- Commercial risk

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Question No : 44 of 60 Marks: 1 (Budgeted Time 1 Min)

"The exchange rate between two countries should equal the ratio of the two countries' price level of a fixed basket of goods and services." This statement belongs to which of the following theory?

Answer (Please select your correct option)

- Fisher effect theory
- Purchasing Power Parity theory
- M&M theory
- Interest rate risk theory

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Question No : 45 of 60 Marks: 1 (Budgeted Time 1 Min)

Countries with _____ interest rate register capital inflow and result in appreciation in exchange rate.

Answer (Please select your correct option)

- High
- Low
- Moderate
- None of the given options

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Question No : 46 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following rates is determined by the private market through supply and demand?

Answer (Please select your correct option)

- Fixed rate
- Floating rate
- Stable rate
- None of the given options

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Question No : 47 of 60 Marks: 1 (Budgeted Time 1 Min)

Between 1870 and 1914, the globally fixed exchange rate was accepted in which the currencies were linked to which of the following?

Answer (Please select your correct option)

- Any commodity
- Diamond
- Gold
- Wheat

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Question No : 48 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is an assumption of capital asset pricing model?

Answer (Please select your correct option)

- Portfolio beta must be greater than 1
- Portfolio beta must be less than 1
- Portfolio beta must be equal to 1
- Portfolio beta must be 2

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Question No : 49 of 60 Marks: 1 (Budgeted Time 1 Min)

With respect to the Cash flow statement, which of the following would be considered as a cash inflow?

Answer (Please select your correct option)

- Sale of inventory on cash basis
- Purchase of Inventory
- Increase in account receivables
- Can not be determined

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Question No : 50 of 60 Marks: 1 (Budgeted Time 1 Min)

All of the following are financing activities in a cash flow statement EXCEPT:

Answer (Please select your correct option)

- Income from stock issuance
- Dividend payment to shareholders
- Principal payment of long term loan
- Tax payments

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Question No : 51 of 60 Marks: 1 (Budgeted Time 1 Min)

The credit policy of a public company is 1/10, net 30. At present 25% of the customers take the discount. What would be the position of accounts receivable, if all customers avail the cash discount?

Answer (Please select your correct option)

- Account receivable would be lower than the present level
- No change from the present level
- Account receivable would be higher than the present level
- Unable to determine without more information

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Question No : 52 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statement is CORRECT regarding Bid Price?

Answer (Please select your correct option)

- The price at which a Foreign exchange dealer will buy a variable currency is called bid price
- The price at which a Foreign exchange dealer will buy the base currency is called bid price
- The price at which a Foreign exchange dealer will sell a variable currency is called bid price
- The price at which a Foreign exchange dealer will sell a base currency is called bid price

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Question No : 53 of 60 Marks: 3 (Budgeted Time 6 Min)

Give at least three reasons of merger failure and explain each of them briefly.

Answer (Please click here to Add Answer)

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Question No : 54 of 60 Marks: 3 (Budgeted Time 6 Min)

How financial distress of a firm could be gauged?

Answer (Please click here to Add Answer)

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Question No : 55 of 60 Marks: 3 (Budgeted Time 6 Min)

How is it decided to exercise an Option Contract or allowed it to lapse? Briefly explain.

Answer (Please click here to Add Answer)

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Question No : 56 of 60 Marks: 5 (Budgeted Time 10 Min)

What are the reasons behind valuing the shares of the company while considering the merger transaction?

Answer (Please click here to Add Answer)

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Question No : 57 of 60 Marks: 5 (Budgeted Time 10 Min)

What is the difference between purchase mergers and consolidation mergers? Which of these is usually preferred by acquiring companies?

Answer (Please click here to Add Answer)

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Question No : 58 of 60 Marks: 5 (Budgeted Time 10 Min)

An investor buys 5 options on shares of at a price of Rs 50 per share. Each option consists of 100 shares and premium paid is Rs. 2/- per share. Calculate the total gain, total option cost and net gain for investor if the share price is Rs. 55 at the expiry of option?

Answer (Please click here to Add Answer)

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Question No : 59 of 60 Marks: 5 (Budgeted Time 10 Min)

A manufacturing concern is able to borrow an amount of Rs. 1,000,000 at an interest rate of 11 percent for one year from a local bank. During that year, market participants expect 6 percent inflation.

- What approximate real rate of return does the lender expect?
- If inflation proves to be 4 percent for the year, who will suffer the borrower or the lender?

Answer (Please click here to Add Answer)

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Question No : 60 of 60 Marks: 5 (Budgeted Time 10 Min)

How the following activities shall affect cash and networking capital of a firm?

- The firm takes a short-term bank loan and uses the funds to pay off some of its accounts payable.
- The firm uses cash in hand to buy raw materials.
- The firm repurchases outstanding shares of stock.
- The firm sells long-term bonds and keeps the proceeds in its bank account.
- The firm uses cash in hand to pay its creditors.

Answer (Please click here to Add Answer)

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