

# ACC501- Business Finance

## Final Term Mega File

Prepared By

**Brave Heart Innocent Mishii**

### Complete Final Term Paper of Spring 2015

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

Which of the following statement is INCORRECT regarding the technique of net present value?

- ▶ Net present value (NPV) is one of the two or three most important concepts in finance.
- ▶ NPV is the difference between the market value of an investment and its cost.
- ▶ The financial manager acts in the shareholders' best interests by identifying and taking positive NPV projects.
- ▶ NPVs can normally be directly observed in the market.

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

Which one of the following represents a cash outflow?

- ▶ Increase in receivables
- ▶ Increase in payables
- ▶ Increase in inventory
- ▶ Increase in long term debt

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

Which one of the following statements is CORRECT regarding the sunk cost?

- ▶ It is the same thing as an opportunity cost.
- ▶ It is one of the forms of financing cost.
- ▶ It refers to the cash flows of a new product that come at the expense of existing projects.
- ▶ It is a cost that has already been incurred and cannot be recovered.

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

The use of debt in order to maximize shareholders' wealth is termed as \_\_\_\_\_.

- ▶ Capital structure
- ▶ Financial leverage

- ▶ Homemade leverage
- ▶ Cost of equity

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

If an investment has a(n) \_\_\_\_\_ of 1.4, it can be said that the investment generates Rs.1.40 in present value for each dollar invested.

- ▶ Profitability Index
- ▶ Net Present Value
- ▶ Internal Rate of Return
- ▶ Payback Period

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

While performing the feasibility analysis for a project, an operating cash flow of Rs. 200,000 has been calculated. Net working capital will be increased by Rs. 50,000. There will be a net capital spending of Rs. 60,000 during the year. What will be the total cash flow for the project?

- ▶ Rs. 190,000
- ▶ Rs. 120,000
- ▶ Rs. 90,000
- ▶ Rs. 50,000

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

What will be the cash inflow if we have sales of Rs. 250,000 and accounts receivable are decreased by Rs. 50,000?

- ▶ Rs. 200,000
- ▶ Rs. 250,000
- ▶ Rs. 300,000
- ▶ Rs. 350,000

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

Mr. Jamil purchased a car for Rs. 300,000. Now he wants to sell his car. Based on historical averages, his car worth 30% of the purchase price and he sells his car at this price. What would be his tax liability if the depreciation schedule shows a book value of Rs. 50,000 for the car ? (Tax rate is 35%)

- ▶ Rs. 13,000
- ▶ Rs. 14,000
- ▶ Rs. 15,500
- ▶ Rs. 16,000

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

The Farooq purchased a share of common stock exactly one year ago for Rs. 40. During the past year the common stock paid an annual dividend of Rs. 2.00. The firm sold the stock today for Rs. 70. What is the rate of return Farooq has earned?

- ▶ 44%
- ▶ 48%
- ▶ 50%
- ▶ 80%

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

Mr. Amir has bought 60 shares of a corporation one year ago at Rs. 25 per share. Over the last year, he received a dividend of Rs. 3 per share. As per given information what will be the dividend yield ?

- ▶ 11%
- ▶ 12%
- ▶ 13%
- ▶ 14%

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

Standard deviations for Investment A and Investment B are 10% and 25% respectively. This indicates that :

- ▶ Investment B is equally volatile to Investment A
- ▶ Investment A is more volatile than Investment B
- ▶ Investment B is more volatile than Investment A
- ▶ None of the given options

Question No: 12 ( 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 20% and stock B has an expected return of 15%. What will be the portfolio expected return ?

- ▶ 15.85%
- ▶ 16.85%
- ▶ 17.85%
- ▶ 18.85%

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

A firm has a total value of Rs. 800,000 and debt valued at Rs. 300,000. What is the after-tax weighted average cost of capital if the after tax cost of debt is 13% and the cost of equity is 16% ?

- ▶ 13.515%
- ▶ 14.875%
- ▶ 15.875%
- ▶ 16.502%

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

A firm's equity is worth of Rs. 4 million and its debt is worth of Rs. 1 million. What is the percentage of firm's financing that is debt ?

- ▶ 20%
- ▶ 30%
- ▶ 35%
- ▶ 40%

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

Mr. Ahmad has only Rs. 7,000 but he needs Rs. 15,000 after 3 years. At what rate of interest he should invest to get his desired sum of money?

- ▶ 28.92%
- ▶ 38.09%

- ▶ 9.17%
- ▶ 25%

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

Mr. Ali invests Rs. 25,000 in a bank at 14.40% compound rate of interest. How many years would it take to get his investment doubled?

- ▶ 5 years
- ▶ 6 years
- ▶ 7 years
- ▶ 14 years

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

Which of the following security holders have a legal right to claim the assets of the firm first in case of bankruptcy or financial failure?

- ▶ Debt security holders
- ▶ Equity security holders
- ▶ Both debt and equity security holders
- ▶ None of the given option is correct

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

Who protects the bondholder's interest?

- ▶ Shareholders
- ▶ Issuer of bonds
- ▶ Government
- ▶ Trustee

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

What will be the weighted average cost of capital if a firm's capital structure has 50% equity and 50% debt; while, the after tax cost of debt is 12% and the cost of equity is 15%?

- ▶ 13.5%
- ▶ 13.8%
- ▶ 27.0%
- ▶ Cannot be calculated without debt and equity betas

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

When the WACC is \_\_\_\_\_, the value of the value of the firm is \_\_\_\_\_.

- ▶ Minimized; increased
- ▶ Minimized; minimized
- ▶ Maximized; minimized
- ▶ Maximized; maximized

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

Which of the following statements is incorrect?

- ▶ Financial risk comes from the use of debt.
- ▶ Systematic risk is market risk.
- ▶ Systematic risk has two parts: diversifiable risk and non-diversifiable risk.
- ▶ Costs of bankruptcy decrease the attractiveness of debt financing.

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

Which of the following statements is TRUE about relationship between capital structure and weighted average cost of capital (WACC)?

- ▶ A capital structure is considered worse than the other if it results in a lower WACC
- ▶ A capital structure is considered better than the other if it results in a high WACC
- ▶ A capital structure is considered better than the other if it results in a lower WACC
- ▶ Capital structure and weighted average cost of capital are unrelated to each other.

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

Leverage is considered beneficial when company's EBIT is relatively \_\_\_\_\_.

- ▶ Low
- ▶ High
- ▶ Zero
- ▶ Unchanged

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

Which of the following costs includes legal and administrative expenses of a firm?

- ▶ Financial distress costs
- ▶ Indirect bankruptcy costs
- ▶ Direct bankruptcy costs
- ▶ None of the given options

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

Use of cash always brings either \_\_\_\_\_ to a liability (or equity) account or \_\_\_\_\_ to an asset account.

- ▶ Increase; decrease
- ▶ Decrease; increase
- ▶ Increase; increase
- ▶ Decrease; decrease

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

Identify which of the following events increases cash.

- ▶ Obtaining a long-term bank loan
- ▶ Writing off an accounts receivable balance as a bad debt
- ▶ Loan payment
- ▶ Purchasing inventory

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

For short term financing, which one of the following is the most relevant question?

- ▶ How much of a firm's current income should be paid out as dividends?
- ▶ How much money should a firm raise by issuing commercial paper?
- ▶ Should a firm issue debt or equity securities?
- ▶ Should a manufacturing plant be expanded to increase production capacity?

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

ABC Company has following information regarding its proposed investment:

Initial investment Rs. 24 million

Present value of future cash flows Rs. 30 million

Market required rate of return 15%

What will be the Net Present Value (NPV) of proposed investment?

- ▶ Rs. 4.50 million
- ▶ Rs. 6.00 million
- ▶ Rs. 3.60 million
- ▶ Rs. 54 million

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

All of the following are the advantages of Payback Period EXCEPT?

- ▶ Easy to understand
- ▶ Considers the uncertainty of later cash flows
- ▶ Biased toward liquidity
- ▶ Considers the time value of money

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

Which one of the following influence capital budgeting cash flows?

- ▶ Sunk cost
- ▶ Retained earnings
- ▶ Salvage Value
- ▶ Changes in share market value

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

While evaluating an investment project by using capital budgeting technique, we should consider which one of the following items?

- ▶ Taxable income
- ▶ After tax cash flows
- ▶ Retained earnings
- ▶ Operating income

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

ABC Company has following financial information during the accounting period:

Amount (Rs.)

Sales 250,000

Cost 130,000

Depreciation 56,000

Tax rate 34%

What will be the amount of tax payable by the company?

- ▶ Rs. 21,760
- ▶ Rs. 40,800
- ▶ Rs. 85,000
- ▶ Rs. 39,960

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

Equipment used in Research falls under which one of the following MACRS property classes?

- ▶ 3-Year
- ▶ 5-Year
- ▶ 7-Year
- ▶ 10-Year

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

Net Present Value is an example of:

- ▶ Revenue Budgeting
- ▶ Cash Budgeting
- ▶ Capital Budgeting
- ▶ Expense Budgeting

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

Under Net Present Value (NPV) method a project will be accepted if its NPV is:

- ▶ Equal to Zero
- ▶ Positive
- ▶ Less than Zero
- ▶ Unmeasurable

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

Which one of the following technique do NOT consider time value of money?

- ▶ NPV
- ▶ IRR
- ▶ AAR
- ▶ All of the given options

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

Variability of return means to which extent returns change around a/an -----:

- ▶ Expected Return
- ▶ Average Return
- ▶ Maximum Return
- ▶ Minimum Return

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

Which one of the following is NOT an example of systematic risk?

- ▶ Inflation
- ▶ Recession
- ▶ Interest Rate
- ▶ GDP

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

You have invested Rs.50 in Stock F out of a total investment of Rs.200. The weight of stock F in your portfolio is:

- ▶ 0.50
- ▶ 0.100
- ▶ 0.200
- ▶ 0.25

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

The return required by the shareholders for the provision of funds to the Company is termed as:

- ▶ Cost of capital
- ▶ Cost of capital
- ▶ Cost of operations
- ▶ Cost of equity

Question No: 41 ( Marks: 3 )

Suppose your company paid a dividend of Rs. 3 per share last year. The stock's current price is Rs. 40 per share. Assuming that the dividends are estimated to grow steadily at 5% per year, what is the cost of capital for your company?

1 mark for formula

1 mark for working

1 mark for correct answer

From book example

Question No: 42 ( Marks: 3 )

What do "Static Theory of Optimal Capital Structure" state?

Not Ατεμπεδ

Question No: 43 ( Marks: 3 )

What is the difference between operating cycle and cash cycle?

Question No: 44 ( Marks: 3 )

Describe two conditions under which IRR and NPV will provide identical results.

Question No: 45 ( Marks: 3 )

For each of the examples (factors) given below, mention whether it related to "systematic risk" or "unsystematic risk."

Factor Type of Risk

- Higher employee turnover in a company Unsystematic risk
- Interest rate Systematic Risk
- Strike call in XY Company Unsystematic risk
- Inflation Systematic Risk
- Entry of a tooth-brush manufacturer Unsystematic risk
- Gross Domestic Product (GDP) Systematic Risk

Question No: 46 ( Marks: 5 )

If a project has initial investment of Rs. 34,000; while, cash flows of Rs. 13,600 are expected for both year 1 and 2 and cash flows of Rs. 23,600 are expected in year 3. Find out the payback period and net present value of the project. Is it feasible to invest in this project?

Question No: 47 ( Marks: 5 )

Suppose that a company named ABC Limited is acquiring a project that requires an investment of Rs. 500,000. Company has decided to use equity proportion of Rs. 300,000



for this project while rest of the amount has been decided to manage through debt financing. Cost of equity is 15% and before tax cost of debt is 11% while, tax rate is 30%.

Required:

- a). Using given information calculate the weighted average cost of capital of the company.
- b). In case if the tax rate is increased up to 38%, what will happen to the weighted average cost of capital? Calculate and give comments.

Question No: 48 ( Marks: 5 )

ABC Company purchased a vehicle for Rs. 390,000 five year ago. Now the Company wants to sell this vehicle. The vehicle is worth 15% of the purchase price. Depreciation schedule for the vehicle shows a book value of Rs. 30,000 and tax rate is 33%. Compute market value of the vehicle, profit/loss on its sale and tax effect thereof.

Question No: 49 ( Marks: 5 )

Ali has invested Rs.5,000 in stock A and Rs.15,000 in stock B. Expected returns from stock A and B are 11% and 15% respectively. You are required to find Expected Return of the Portfolio.

Question No: 50 ( Marks: 5 )

A company has Cost of Goods Sold of Rs. 2,200,000 and Average Inventory is of Rs. 435,000. If the receivable period is 18.5 days and payable period is 35 days what is company's operating cycle and cash cycle?

## Fall 2015

1. Types of Inventory (3 Marks)
2. Define capital budgeting... Write different techniques of Capital Budgeting (3 Marks)
3. How cos of debt can be measured? (3 Marks)
4. What is side effects in context of capital budgeting? (3 Marks)
5. Effect of credit period expansion on (i) Operating cycle of company granting credit (2) cash conversion cycle availing credit. (3 Marks)
6. Initial investment = 10000, Cash flows for 4 years are 3400,2500,3900 and 5200 respectively, rate of return is 10%. Calculate NPV? is it feasible to invest in this project? (5 Marks)
7. Describe if Cash is increased or decreased in following given five terms/situations?( this is the topic of cash source/increased and cash used/decreased) (5 Marks)
8. Vehicle cost price/purchase price is 390000, Book value = 30000, Market value is 15% of Purchase price, Tax rate is 33%. Calculate Market Value, Profit/loss on sale and tax effect on profit/loss? (5 Marks)
9. Define float? reasons of occurring collection and cash disbursement float? (5 Marks)

10. Credit amount is 35000 on August 01, 20X1, credit terms is 3/12 net 45. calculate how much he has to pay on (1) August 11, 20X1 and (2) August 15, 20X1.

## August 22, 2015

- Use the given info to compute operating cash flow for a project under consideration where tax rate is (34%)

Sale= 60000

Variable cost= 32000

Fixed cost= 6000

Depreciation= 7000

- What is the main argument of M&M against the traditional approach to capital structure and valuation?
- If a firm has 40% debt and 60% equity in its capital structure, the firm estimated after tax cost of debt is 7% and estimate cost of equity is 12%. Determine the firm's weighted average cost of capital?
- What is return? Describe its components and relation with the risk.
- Calculate (A) operation cash flow, (B) depreciation tax shield (C) operation cash flow if there is no depreciation.

From given data

Sale= 150000

Costs=100000

Tax rate=35%

Depreciation=20000

- What will be the WACC of the firm if
  1. If Firm capital structure has 75 % equity, 25 % debt while with cost as 10% and 20% respectively and tax rate is 28 %.
  2. If firm capital structure has 25% debt 75 % equity while firm estimated after tax cost of debt is 7% and cost of equity is 11%.
- An investor places 40% of his funds in security A and balance in security B. the expected return on A and B are 10% and 15% respectively. Calculate the expected return on portfolio.
- MS CO has paid annual dividend as follow

Year: Dividend

1 1.10

2 1.12

3 1.15

4 1.20

5 1.23

Calculate the average growth rate of dividend and value of DI for 6th year.

## August 23, 2015

1. Define Variance and its use.
2. Define qualities of IRR.
3. Find NPV.
4. Find Return per share, ROE.
5. Approval of project regarding its expected rate of return in boom and recession.

## August 24, 2015

- Q1.M&M proposition 1 tax case? Example?
- Q2. Calculate total percentage of return?
- Q3. Calculate:
- (A) Operation cash flow,
  - (B) Depreciation tax shield
  - (C) Operation cash flow if there is no depreciation.
- Q4.Calculate:
- (A) Operation cash flow,
  - (B) Depreciation tax shield
- Q5.What will be the WACC of the firm?given values
- Q6.Capital gain yield, dividend yield and total gain find?
- Q7. Find variance, standard deviation?
- Q8.Find Capital gain yield, dividend yield and total gain?
- Q9. Find Net income, PS and ROE?
- Q10. Find EBIT?

## June 20, 2015

Q #1 If you want to buy a laptop costing 25,000, with a 10% down payment, the bank will loan you 15% per year for 3 years. How much will each monthly payment be?

Q # 2

A bond have a RS.10,000 face value, the promised annual coupon is Rs. 700, the bond matures in 10 years, market required return on similar bond is 11%. Find out the value of bond?

Q # question tha 5 marks ka us mai balance sheet di hui thi or Time Interest Earned Ratio nikalni thi

Q Disadvantages of bearer bond?

**March 6, 2015**

1. How cost of debt can be measured?
2. Difference b/w permanent & Temporary current assets?
3.
  1. Sales of 10,000 units/year @ \$5/unit.
  2. Variable cost/unit is \$3. Fixed costs are \$5,000/year. Project has no salvage value. Project life is 3 years.
  3. Project cost is \$21,000. Depreciation is \$7,000/year.
  4. Investment in net working capital is \$10,000.
  5. The firm's required return is 20%. The tax rate is 34%.
4. Calculation of total cash flow?
5. Data was given and find receivable turnover and and receivable period.

**March 10, 2015**

- Electronic Data Interchange (EDI) and its advantages? 3
- Define Types of Inventory? 3
- Quality of payback period? 3
- Explain wacc? Why wacc is used by the firm? 3
- 1 ques was about to find E(RL)? data was given 5
- IF the Debt-Equity ratio is 0.70 and the firm have no preferred stocks so find the portfolio weights of debt? 5
- 1 question was about to find IRR, data was given? 5
- Describe components of credit policy and give example? 5
- 1 question was related to inventory management? 5

**August 22, 2014**

1. Secured and no secured loan 5 marks
2. Cash Cycle 5 marks
3. Calculate Capital gain 5 Marks
4. Calculate NpV and Pay Back 5 marks
5. 1 Financing cost and investment 3 marks
6. Cash Management 3 marks
7. Dividend yield and capital gain yield 3 marks

## August 22, 2014

- 1 – What are the components of credit policy? 5
- 2- Discuss the two aspect of short term financial policy? 5
- 3- Define bankruptcy and what are different types of bankruptcy cost? 5
- 4- Define portfolio? What are portfolio weight ? 5

### Short Q

- 1- Write down the basic objectives in cash management? 3
- 2- Define NPV? What are rules to accept a project? 3
- 3- Why financing cost are not included while analyzing a proposed investment?

types of inventory

cash mangment objective

how to calculate firm overall cost ov capital

projected cash flow relevant and incremental cashflows

m\$m proposition and proposition 1 and 2

## August 22, 2014

- 2- Define cash collection.
- 3- Cash disbursements secured and unsecured loan
- 4- Static theory of capital structure
- 5- Pro forma k bare mein ta.

## August 22, 2014

What is inventory management 5

Relationship capital structure and WACC 5

Net present value and find play back period 5

**Sunk cost and Opportunity cost:- 3**

**Net present value and rules to accepted the project 3**

**Difference between the systematic rate and systematic rate . 3**

**DIFFERENT TYPES OF INVENTORIES FOR MANUFACTURING FIRMS AND BUSINESS RETAILERS 5**

**EDI (electronic data interchange) and its benefits 3**

## August 30, 2014

- 1.Calculate NPV and profitability index.
- 2.difference b/w secured and unsecured loans.

- 3.list down the basic objectives of cash management
- 4.calculate dividend and capital gain
- 5.difference b/w primary and secondary markets
- 6.what is NWC, list down current assets and current liabilities in order of their liquidity.
- 7.what are the components of credit policy? explain with examples...
- 8.what do you mean by the terms business risk and financial risk?
- 9.why is there a difference in tax treatment for the market value and book value?

**FINAL TERM  
EXAMINATION  
Paper 1**

**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. 155,000**
- ▶ Rs. 45,000

$$\begin{array}{r} 200000 \\ -45000 \\ \hline 155000 \end{array}$$

**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, a n d 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



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► 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 :

▶ 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%

$$250+150=400$$

$$250/400=0.625$$

$$0.625*100=62.5 \text{ is equity and}$$

$$100-62.5=37.5 \text{ is debt}$$

**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

T ▶ Rs. 30,919

D<sub>1</sub>

▶ Rs. 36,919

G ▶ 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

▶ 0.5319

▶ 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 firms 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

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

**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:

- perating efficiency (as measured by profit margin)
- sset use efficiency (as measured by total assets turnover)
- inancial 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?

A

- ▶ 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

▶ nterest

**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 77
- ▶ 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?

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.

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 AAR

**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 2<sup>nd</sup> 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 that is debt ?

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 :

MISHI BRAVE

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		
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

A

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

S

A Which of the following refers to a conflict of interest between principal and agent?

C

M

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:

MISHI BRAVE

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 ?

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

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?

MISHI BRAVE

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 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  
%

50  
%

$$(27-18)/18=0.5\%$$

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

SN T 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?

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.

Internal Rate of Return	Accounting Criteria	
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## Financial

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=62.5equity and remaining 37.5 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