

# ACC501- Business Finance

## Quizzes Mega File

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### Quizzes From lec 1 to 22

2. Period costs include which of the following?

Select correct option:

Selling expense

Raw material

Direct labor

Manufacturing overhead

3. Product costs include which of the following?

Select correct option:

Selling expenses

General expenses

Manufacturing overhead

Administrative expenses

4. Financial policy is evaluated by which of the following?

Select correct option:

Profit Margin

Total Assets Turnover

Debt-equity ratio

None of the given options

5. Cash flow from assets involves which of the following component(s)?

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

All of the given options

6. Which of the following refers to the cash flows that result from the firm's day-to-day

activities of producing and selling?

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

7. Finance is vital for which of the following business activity (activities)?

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

All of the given options

8. Which of the following costs are reported on the income statement as the cost of goods

sold?

Select correct option:

Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

9. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

73 days

$750000/150000=5$

$365/5=73\text{days}$

10. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage

None of the given options

11. In which type of market, new securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

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

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

13. shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

[Income Statement](#)

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

14. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

15. Quick Ratio is also known as:

Select correct option:

Current Ratio

[Acid-test Ratio](#)

Cash Ratio

16. Which of the following statements measures performance over a specific period of time?

Select correct option:

[Income Statement](#)

Balance Sheet

Cash Flow Statement

Retained Earning Statement

17. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

18. Net Income after taxation differs from Net Cash Flow from operations because:

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

19. Which of the following statement shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

[Balance Sheet](#)

Owner's Equity Statement  
Cash Flow Statement

20. A portion of profits, which a company retains itself for further expansion, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

21. Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

[Cash Coverage Ratio](#)

Cash Ratio

22. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?

Select correct option:

Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

23. Which of the following is an example of capital spending?

Select correct option:

Purchase of Fixed Assets

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

24. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

Dividend policy

25. Who of the following make a broader use of accounting information?

Select correct option:

Accountants



## Financial Analysts

Auditors

Marketers

26. Which of the following set of ratios is used to assess a business's ability to generate

earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

Market Value Ratios

27. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

Positive

Negative

zero

None of the given options

28. which of the following is not a form of business organization

Select correct option:

sole proprietorship

partnership

joint stock company

[cooperative Society](#)

29. Which of the following ratios are intended to address the firm's financial leverage?

Select correct option:

Liquidity Ratios

[Long-term Solvency Ratios](#)

Asset Management Ratios

Profitability Ratios

30. The accounting definition of income is:

Select correct option:

Income =

Current

Assets -

Current

Liabilities

Income =

Fixed Assets

- Current

Assets

Income =

Revenues -

Current

Liabilities

[Income = Revenues - Expenses](#)

31. Which of the following item(s) is(are) not included while

calculating  
Flows?

Operating

Cash

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

[All of the given options](#)

32. Suppose market value exceeds book value by Rs. 250,000.  
What will be the after-tax  
proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

[Rs. 165,000](#)

Rs. 225,000

Solution= $250000 * 34\% = 85000$   
 $250,000 - 85000 = 165000$

33. When a corporation wishes to borrow from public on a  
long-term basis, it does so by  
issuing or selling:

Select correct option:

[Debt securities or bonds lec 17](#)

Common Stocks

Preferred Stock

All of the given options

34. Which of the following set of ratios is used to assess a business's ability to generate

earnings as compared to its expenses and other relevant costs incurred during a specific period of time?

Select correct option:

Liquidity Ratios  
Leverage Ratios  
Profitability Ratios  
Market Value Ratios

35. In which type of market, used securities are traded?

Select correct option:

Primary market  
Secondary market  
Tertiary market  
None of the given options

36. Who of the following make a broader use of accounting information?

Select correct option:

Accountants  
Financial Analysts lec 2  
Auditors  
Marketers

37. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

Depreciation

All of the given options

38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

Rs. 100

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

=1000/10

=100

39. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?

Select correct option:

Payback Period

Net Present Value

Average Accounting Return

None of the given options

40. Period costs include which of the following?

Select correct option:

Selling expense

Raw material

Direct labor

Manufacturing overhead

41. The value of net working capital will be greater than zero when:

Select correct option:

Current Assets > Current Liabilities

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

42. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

43. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

44. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

45. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution=  $700000/460000=1.52$

46. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

[General Partnership](#) pg 6

Limited Partnerhsip

Corporation

47. a firm uses cash to purchase inventory, its current ratio will:  
Select correct option:

Increase

Decrease

[Remain unaffected](#)

Become zero

48. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

[Ordinary Annuity](#)

Special Annuity

Annuity Due

Perpetuity

49. Which of the following is an example of positive covenant?  
Select correct option:

[Maintaining any collateral or security in good condition](#)

Limiting the amount of dividend according to some



formula Restricting  
pledging assets to other  
lenders

Barring merger with another firm

50. Which of the following refers to the difference between the sale price and cost of inventory?

Select correct option:

Net loss

Net worth

Markup

Markdown

51. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

52. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

53. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

54. Which of the following form of business organization is least regulated?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

Corporation

55. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity

Present value of a lump sum

56. Which of the following relationships holds TRUE if a bond sells at a discount?

Select correct option:

Bond Price <

Par Value and

YTM > coupon

rate

Bond Price >

Par Value and

YTM > coupon

rate

Bond Price >

Par Value and

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

57. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

Debt securities or bonds

Common Stocks

Preferred Stock

All of the given options

58. Which of the following item provides the important function of shielding part of income from taxes?

Select correct option:

Inventory

Supplies

Machinery

Depreciation

59. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

Rs. 800,000

Rs. 1100,000

sol

Asset= liabilities+ capital so  $300+500=800,000$

60. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership

Corporation

61. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship  
partnership

joint stock company

none of the above

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

Select correct option:

CF from Assets = CF to  
Creditors - CF to  
Stockholder

CF from Assets = CF to  
Stockholders - CF to  
Creditors

CF to Stockholders =

CF to Creditors + CF  
from Assets

CF from Assets = CF to Creditors + CF to Stockholder

63. The difference between current assets and current liabilities is known as:  
Select correct option:

Surplus Asset

Short-term Ratio

Working Capital

Current Ratio

64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

Rs. 22,697

Rs. 28,253

solution

$$40000 * 1 / (1 + 0.12)^5 = 22697.07$$

65. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

66. The principal amount of a bond at issue is called:  
Select correct option:

[Par value](#)

Coupon value

Present value of an annuity  
Present value of a lump sum

67. Which of the following statement about bond ratings is TRUE?  
Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

[Bond ratings represent an independent assessment of the credit-worthiness of bonds.](#) None of the given options

68. Which of the following is the acronym for GAAP?  
Select correct option:

Generally Applied Accountability Principles General Accounting Assessment Principles

[Generally Accepted Accounting Principles](#)

General Accepted Assessment Principles

69. Which of the following is NOT an internal use of financial statements information?

Select correct option:

[Planning for the future through historic information](#)

Evaluation of performance through profit margin and return on equity  
Evaluation of credit standing of new customer

None of the given options

70. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?

Select correct option:

12 %

25 %

40 %

60 %

Solution

Net income-dividend / net income

\*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

Positive

Negative

zero

None of the given options

71. A portion of profits, which a company distributes among its shareholders, is known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

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

Financial institutions

International finance

Investments

All of the given options

73. Which of the following ratios is NOT from the set of Asset Management Ratios?

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

Return on Assets

74. You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year.

Which option do you prefer and why if you can earn 5 percent on your money?

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value



75. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage

None of the given options

b

76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?

Select correct option:

8.42 years

10.51 years

15.75 years

18.78 years

$$6000(1+5\%)^{10.51} \approx 10,000$$

77. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the

lender Maintaining any collateral  
or security in good condition  
Restricting selling or leasing  
assets

78. Which of the following is  
measured by retention ratio?  
Select correct option:

Operating efficiency  
Asset use efficiency  
Financial policy

Dividend policy

79. Which of the following statement shows assets, liabilities, and  
net worth as of a specific  
date?

Select correct option:

Income Statement

Balance Sheet

Owner's Equity Statement

Cash Flow Statement

Armaan: b

80. Product costs  
include which of  
the following?  
Select correct  
option:

Selling expenses  
General expenses

Manufacturing overhead

Administrative expenses

81. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

Rs. 1,100

$$4100 - 3000 = 1100$$

82. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

83. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

84. Which of the following term refers to establish of a standard to follow for comparison?

Select correct option:

[Benchmarking 48](#)

Standardizing

Comparison

Evaluation

85. Which of the following is measured by profit margin?

Select correct option:

[Operating efficiency pg 44](#)

Asset use efficiency

Financial policy

Dividend policy

86. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

[5% to 20%](#)

10% to 50%

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

Select correct option:

Interest Conflict

Agency Problem

None of the given options

88. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

Ordinary annuity 63

Annuity due

Perpetuity

None of the given options

89. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

International finance

Investments

All of the given options

90. 7:03 AM Which of the following is NOT an external use of financial statements

information?

Select correct option:

Evaluation of credit standing of new customer

Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

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

Financial institutions  
International finance  
Investments

All of the given options

92. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs.

0

What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%

solution

Net income = ROA \* total asset

Net income = 8% \* 75000 = 6000

Profit margin = net income / sales \* 100

Profit margin = 6000 / 100000 \* 100 = 6%

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

investments?

Select correct option:

Capital Structuring  
Capital Rationing

Capital Budgeting

Working Capital Management

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

Select correct option:

Operating Cash Flows

Investing Cash Flows  
Financing Cash Flows  
All of the given options

95. Quick Ratio is also known as:  
Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

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

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

97. If you have Rs. 30 in asset A and Rs. 120 in another asset B,

the weights for assets A and B will be \_\_\_ and \_\_\_ respectively.

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

98. When corporations borrow, they generally promise to: I.

Make regular scheduled

interest payments II. Give the right of voting to

bondholders III. Repay the original

amount borrowed (principal) IV. Give an ownership

interest in the firm

Select correct option:

I and II

I and III

II and IV

I, III, and IV

99. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

A personal profile of the issuer

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:



Rs. 6,302

Rs. 9,981

Rs. 14,800

Rs. 15,869

101. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

102. The preferred stock of a company currently sells for Rs. 25 per share. The annual

dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

103. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

*Choose the*

*Most Appropriate Answer among the given choices.*

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

- A. Risk Return
- B. Risk Premium**
- C. Risk Factor
- D. None of the above

**2. A group of assets such as stocks and bonds held by an investor.**

- A. Portfolio**
- B. Capital Structure
- C. Budget
- D. None of the above

**3. If the variance or standard deviation is larger then the spread in returns will be:**

- A. Less
- B. More**
- C. Same
- D. None of the Above

**4. The following risk is entirely wiped out by Diversification.**

- A. Systematic Risk
- B. Unsystematic Risk**

C. Portfolio Risk

D. Total Risk

**5. The objective for using the concept of Diversification is to :**

A. Minimize the Risk

B. Maximize the return

**C. A & B**

D. None of the Above

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

A. Higher the risk, lower the return

B. Lower the risk, higher the return

**C. Higher the risk, higher the return**

D. None of the above

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

**A. Systematic Risk**

B. Unsystematic Risk

C. Total Risk

D. Portfolio Risk

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

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

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

A. 10,500

B. 7,500

C. 10,000

D. 7,000

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

A. 8.50 %

B. 6.25%

C. 8.00%

D. 6.67%

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

A. 20%

B. 28%

C. 32%

D. 35%

. Which of the following process can be defined as the process of generating earnings from previous earnings?

Select correct option:

Discounting

Compounding

Factorization

None of the given options

9. Which of the following is the amount of cash we

would get if we actually sell  
an asset?

Select correct option:

[Market Value](#)

Book Value

Intrinsic Value

None of the given options

11. Which of the following financial  
statement shows both dollars and  
percentages in the report?

Select correct option:

Balance Sheet

[Common-Size Statement](#)

Income Statement

Relative Statement of Equity

12. in which form of Business,  
owners have limited liability.

Select correct option:

sole proprietorship

partnership

[joint stock company](#)

none of the above

13. Suppose the initial investment for a project is  
Rs. 16 million and the cash  
flows are Rs. 4 million in the first year and Rs.

9 million in the second and  
Rs. 5 million in the third. The project will have  
a payback period of:

Select correct option:

2.6 Years

[3.1 Years](#)

3.7 Years

4.1 Years

14. Which of the following is NOT a  
shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

[None of the given options pg 106](#)

15. When a corporation wishes to borrow from  
public on a long-term basis, it  
does so by issuing or selling:

Select correct option:

[Debt securities or bonds pg 71](#)

Common Stocks

Preferred Stock

All of the given options

16. Treasury notes and bonds are examples of  
which of the following types of  
bonds?

Select correct option:

Government bonds 85

Zero coupon bonds  
Floating-rate bonds  
Euro bonds

17. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.  
Select correct option:

Low; higher

High; lower

High; higher pg 88

None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?  
Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

All of the given options

19. Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

Select correct option:

Higher-coupon; lower-coupon  
Lower-coupon; higher-coupon

[Long-term; short-term](#)

None of the given options

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

Select correct option:

Ordinary Annuity  
Annuity Due

[Ordinary perpetuity pg 91](#)

None of the given options

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

Select correct option:

Float

[Collar pg 86](#)

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:



Simple Interest Rate

Compound Interest Rate

[Economic Rate of Return](#)

Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?

Select correct option:

$$D2 = D1 \times (1 + g)$$

$$D2 = D_0 \times (1 + g)^2$$

$$D2 = D_0 \times (1 + g)^2$$

[All of the given options pg 92](#)

24. A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

[mutually exclusive project](#)

independent project

dependent project

contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of

1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

Reference= $600000 \times 1.12 = 672000 - 600000 = 72000$

26. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure. Pg 78

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) \_\_\_\_\_ bond.

Select correct option:

Income

Zero coupon

Floating-rate  
Put

28. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

Select correct option:

Positive

[Negative pg 80](#)

Neutral

None of the given options

29. IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flow s are conventional

Cash flow s are independent

[Cash flow s are both conventional and independent pg 110](#)

None of the given options

30. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

31. Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments pg 116

Easily communicated and understood

Can be estimated even without knowing the discount rate

32. In which type of the market, previously issued securities are traded among investors?

Select correct option:

Primary Market

Secondary Market pg 100

Tertiary Market

None of the given options

33. A model which makes an assumption about the future growth of dividends is known as:

Select correct option:

Dividend Price Model

Dividend Growth Model

Dividend Policy Model

All of the given options

34. Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?

Select correct option:

If Profitability Index  $> 1$ , NPV is

Negative (-)  
If  
Profitability  
Index  $< 1$ ,  
NPV is  
Positive (+)

If Profitability Index  $> 1$ , NPV is Positive (+)

If Profitability Index  $> 1$ , NPV is Zero (0)

35. Which of the following comes under the head of  
discounted cash flow criteria  
for capital budgeting decisions?

Select correct option:

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Payback Period

[Net Present Value pg 118](#)

Average Accounting Return

36.

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

[Payback Period pg 119](#)

Net Present Value

Profitability Index

Internal Rate of Return

37. Which of the following is an example of positive covenant?

Select correct option:

[Maintaining any collateral or security in good condition](#)

Limiting the amount of dividend according to some formula Restricting pledging assets to other lenders

Barring merger with another firm

38. Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

40. Which of the following is a measure of accounting profit relative to the book value?

Select correct option:

Net Present Value

Profitability Index

Internal Rate of Return

Average Accounting Return pg 119

41. Which one of the following typically applies to preferred stock but not to common stock?

Select correct option:

Dividend yield

Cumulative dividends

Voting rights

Tax deductible dividends

42. Treasury notes and bonds are examples of

which of the following types of bonds?

Select correct option:

[Government bonds pg 86](#)

Zero coupon bonds

Floating-rate bonds

Euro bonds

43. Expectation of a \_\_\_\_ inflation rate will push long term interest rates \_\_\_\_ than short term rates reflected by an upward term structure.

Select correct option:

Lower; higher

Higher; lower

[Higher; higher pg 88](#)

None of the given options

44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6



months?

Select correct option:

3 percent

6 percent

9 percent

12 percent

$$60+60=120/1000=12\%$$

45. The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?

Select correct option:

2.00 Years

2.67 Years

3.00 Years

3.67 Years

Project=800 paid in 1 year=100, 2<sup>nd</sup> year=300 and 3<sup>rd</sup> year=400 total 800 paid in 3<sup>rd</sup> year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

Annuity due pg 66

Perpetuity

None of the given options

46. Which of the following is NOT an important feature of treasury notes and

bonds?

Select correct option:

Default free

Taxable

[Least liquid pg 90](#)

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

[Internal rate of interest pg 88](#)

Expected inflation

Interest rate risk

47. Which of the following is the amount of time required for an investment to

generate cash flows sufficient to recover its initial cost?

Select correct option:

Yield to maturity  
Maturity Period

[Payback period pg 104](#)

Accounts Receivable period

m.q .z

48. In which type of the market, securities are originally sold to the investors?  
Select correct option:

[Primary Market](#)

Secondary Market  
Tertiary Market

None of the given options

49. A \_\_\_\_\_ is an agent who arranges security transactions among investors.  
Select correct option:

[Broker pg 100](#)

Dealer

Member

Specialist

volatile

50. Which of the following is a characteristic of preferred stock?  
Select correct option:

These stocks have not stated liquidating value

[Dividends on these stocks can be cumulative pg 100](#)

These bonds hold credit ratings quite different from bonds  
These stocks have not any kind of priority over common  
stocks

51. Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?

Select correct option:

Government bonds

[Zero coupon bonds pg 85](#)

Floating-rate bonds

Euro bonds

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

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Select correct option:

Accepted; rejected  
Accepted; accepted  
Rejected; rejected

[Rejected; accepted pg 109 conceptual](#)

53. Which of the following comes under the head of accounting criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value  
Profitability Index

[Average Accounting Return pg 119](#)

54. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

Select correct option:

[Ordinary annuity pg 63](#)

Annuity due

Perpetuity

None of the given options

55. Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?

Select correct option:

Net Present Value (NPV)

Average Accounting Return  
(AAR)

Internal Rate of Return (IRR)

Profitability Index (PI)

56. One would be indifferent between taking and not taking the investment when:

Select correct option:

NPV is greater than Zero

[NPV is equal to Zero](#) pg 104 doubt ask question in md

NPV is less than Zero

All of the given options

57. Which one of the following terms refers to the risk arises for bond owners from fluctuating interest rates?

Select correct option:

Fluctuations Risk

[Interest Rate Risk](#) pg75

Real-Time Risk

## Inflation Risk

58. All else equal, the market value of a corporate bond is always inversely related to its:

Select correct option:

Time to maturity

Coupon rate

Yield to maturity

All of the given options

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Date :25-11-2010

ACC 501  
Quiz  
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his Mcqs  
for  
Midterm

59. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

60. Period costs include which of the following?  
Select correct option:

[Selling expense](#)

Raw material

Direct labor

Manufacturing overhead

61. Product costs include which of the following?  
Select correct option:

Selling expenses

General expenses

[Manufacturing overhead](#)



Administrative expenses

62. Financial policy is evaluated by which of the following?

Select correct option:

Profit Margin

Total Assets Turnover

Debt-equity ratio

None of the given options

63. Cash flow from assets involves which of the following component(s)?

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

All of the given options

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

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

65. Finance is vital for which of the following business activity (activities)?

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

All of the given options

66. Which of the following costs are reported on the income statement as the cost of goods sold?

Select correct option:

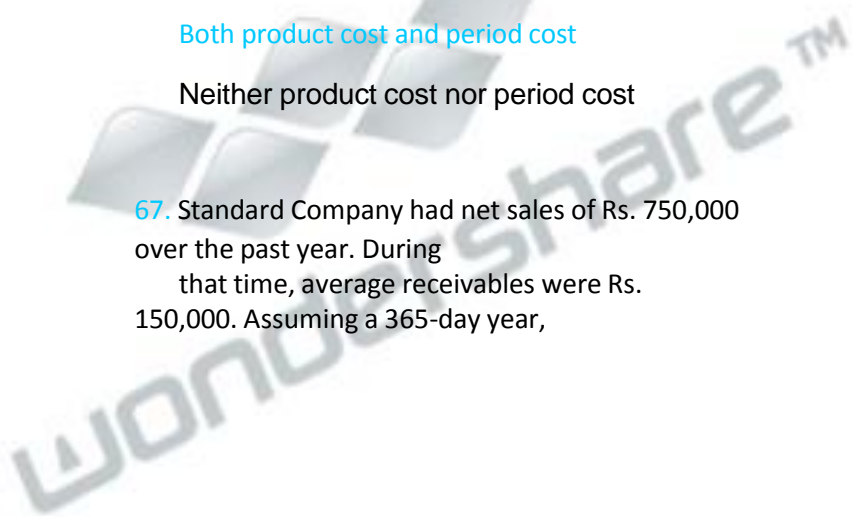
Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year,



what was the average collection period?

Select correct option:

5 days

36 days

48 days

73 days

$$750000/150000=5$$

$$365/5=73\text{days}$$

68. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage

None of the given options

69. In which type of market, new securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

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

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios

Market Value Ratios

71. shows the sources from which cash has been generated and how it has been spent during a period of time?

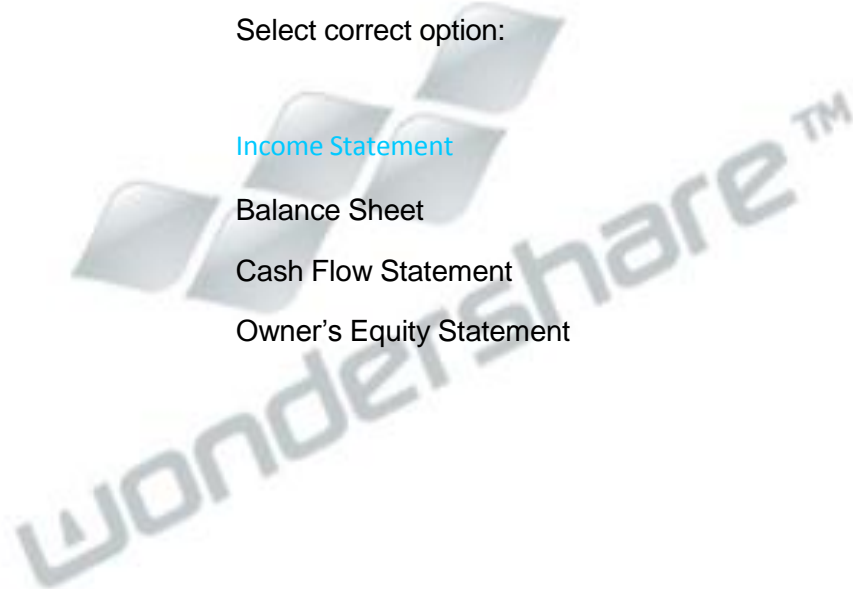
Select correct option:

[Income Statement](#)

Balance Sheet

Cash Flow Statement

Owner's Equity Statement



72. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

- Operating activity
- Investing activity
- Financing activity
- None of the given options

73. The Quick Ratio is also known as:

Select correct option:

- Current Ratio
- Acid-test Ratio
- Cash Ratio

74. Which of the following statements measures performance over a specific period of time?

Select correct option:

- Income Statement
- Balance Sheet
- Cash Flow Statement
- Retained Earnings Statement

75. Which of the following statements shows assets, liabilities, and net worth as of a specific date?

Select correct option:

Income Statement

Balance Sheet

Owner's Equity Statement

Cash Flow Statement

76. A portion of profits, which a company retains  
itself for further expansion, is  
known as:

Select correct option:

Dividends

Retained Earnings

Capital Gain

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None of the given options

77. Which one of the following is NOT a liquidity ratio?

Select correct option:

Current Ratio

Quick Ratio

Cash Coverage Ratio

Cash Ratio



78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?

Select correct option:

Profit Margin

Return on Assets

Return on Equity

Total Assets Turnover

79. Which of the following is an example of capital spending?

Select correct option:

Purchase of Fixed Assets

Decrease in Net Working Capital

Increase in Net Working Capital

None of the given options

80. Which of the following is measured by profit margin?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

Dividend policy

81. Who of the following make a broader use of accounting information?

Select correct option:



Accountants

Financial Analysts

Auditors

Marketers

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

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

Market Value Ratios



83. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

Select correct option:

Positive

Negative  
zero

None of the given options

84. which of the following is not a form of business organization

Select correct option:

sole proprietorship  
partnership

joint stock company

cooperative Society

85. Which of the following ratios are intended to address the firm's financial leverage?

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Asset Management Ratios

Profitability Ratios

86. The accounting definition of income is:

Select correct option:

Income =  
Current

Assets -  
Current  
Liabilities  
Income =  
Fixed  
Assets -  
Current  
Assets  
Income =  
Revenues -  
Current  
Liabilities

Income = Revenues - Expenses



87. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

All of the given options

88. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?

Select correct option:

Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

Solution= $250000 * 34\% = 85000$   
 $250,000 - 85000 = 165000$

89. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

90. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

91. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

92. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

Depreciation

All of the given options

93. What will be the coupon value of a Rs. 1,000

face-value bond with a 10%  
coupon rate?

Select correct option:

Rs. 100

Rs. 510

Rs. 1,000

Rs. 1,100

Solution:

$=1000/10$

$=100$

94. Which of the following comes under the head of  
discounted cash flow criteria  
for capital budgeting decisions?

Select correct option:

Payback Period lec 28

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Net Present Value

Average Accounting Return

None of the given options

95. Period costs include which of the following?

Select correct option:

Selling expense

Raw material

Direct labor

Manufacturing overhea



96. The value of net working capital will be greater than zero when:

Select correct option:

Current Assets > Current Liabilities

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

97. According to Du Pont Identity, ROE is affected by which of the following?

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

All of the given options

98. Which of the following issue is NOT covered by "Investment" area of finance?

Select correct option:

Best mixture of financial investment

International aspects of corporate finance

Associated risks and rewards

Pricing financial assets

99. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):

Select correct option:

Operating activity

Investing activity

Financing activity



None of the given options

100. Balance sheet for a company report

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current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

Select correct option:

1.01

1.26

1.39

1.52

Solution=  $700000/460000=1.52$

101. In which type of business, all owners share in gains and losses and all

have unlimited liability for all business debts?

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnerhsip

Corporation

102. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

Increase

Decrease

Remain unaffected

Become zero

103. Which of the following is a special case of annuity, where the stream

of cash flows continues forever?

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

Perpetuity

104. Which of the following is an example of positive covenant?

Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula  
Restricting pledging assets to other lenders

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Barring merger with another firm

105. Which of the following refers to the difference between the sale price

and cost of inventory?

Select correct option:

Net loss

Net worth

Markup

Markdown

106. Which of the following allows a company to repurchase part or all of

the bond issue at a stated price?

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

107. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

108. Which of the following is a cash flow from financing activity?

Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

109. Which of the following form of business organization is least regulated?

Select correct option:

Sole-proprietorship

General Partnership

Limited Partnership

Corporation

110. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity

Present value of a lump sum

111. Which of the following relationships holds TRUE if a bond sells at a

discount?

Select correct option:

Bond Price <

Par Value and

YTM >

coupon rate

Bond Price >

Par Value and

YTM >

coupon rate

Bond Price >

Par Value and

YTM <

coupon rate

Bond Price <

Par Value and

YTM <

coupon rate

112. When a corporation wishes to borrow from public on a long-term

basis, it does so by issuing or selling:

Select correct option:

[Debt securities or bonds](#)

Common Stocks

Preferred Stock

All of the given options

113. Which of the following item provides the important function of

shielding part of income from taxes?

Select correct option:

Inventory

Supplies  
Machinery

[Depreciation](#)

114. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs.

500,000. What would be the total worth of the firm's assets?

Select correct option:

Rs. 300,000

Rs. 500,000

[Rs. 800,000](#)

Rs. 1100,000

sol

Asset= liabilities+ capital so  $300+500=800,000$

115. Which of the following forms of business organizations is



created as a

distinct legal entity owned by one or more individuals or entities?

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership

Corporation

116. in which form of Business, owners have limited liability.

Select correct option:

sole proprietorship  
partnership  
joint stock company

none of the above

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

Select correct option:

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

CF from Assets = CF to Creditors + CF to Stockholder

118. The difference between current assets and current liabilities is known

as:

Select correct option:

Surplus Asset  
Short-term Ratio

Working Capital

Current Ratio

119. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate

of 12 percent, what amount of money the lender should lend?

Select correct option:

Rs. 14,186

Rs. 18,256

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Rs. 22,697

Rs. 28,253

solution

$$40000 * 1 / (1 + 0.12)^5 = 22697.0$$

120. Which of the following statement is considered as the accountant's

snapshot of firm's accounting value as of a particular date?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement

Retained Earning Statement

121. The principal amount of a bond at issue is called:

Select correct option:

Par value

Coupon value

Present value of an annuity

Present value of a lump sum

122. Which of the following statement about bond ratings is TRUE?

Select correct option:

Bond ratings are typically paid for by a company's bondholders.

Bond ratings are based solely on information acquired from sources other than the bond issuer.

Bond ratings represent an independent assessment of the credit-worthiness of bonds.

None of the given options

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

Select correct option:

Generally

Applied

Accountability

Principles

General

Accounting  
Assessment  
Principles

Generally Accepted Accounting Principles

General Accepted Assessment Principles

124. Which of the following is NOT an internal use of financial statements

information?

Select correct option:

Planning for the future through historic information

Evaluation of performance through profit margin and return on equity

Evaluation of credit standing of new customer

None of the given options

125. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000. What is the retention ratio for the firm?

Select correct option:

12 %

25 %

40 %

60 %

Solution

Net income-dividend / net income

\*100

$250000-150000/250000*100=40\%$

A company having a current ratio of 1 will have \_\_\_\_\_ net working capital. Select correct option:

Positive

Negative  
zero

None of the given options

126. A portion of profits, which a company distributes among its shareholders, is known as:

Select correct option:

Dividends

Retained Earnings  
Capital Gain

None of the given options

127. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions  
International finance  
Investments

All of the given options

128. Which of the following ratios is NOT from the set of Asset

Management Ratios?

Select correct option:

Inventory Turnover Ratio  
Receivable Turnover  
Capital Intensity Ratio

Return on Assets

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

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. Which of the following terms refers to the use of debt financing?

Select correct option:

Operating Leverage

### Financial Leverage

Manufacturing Leverage  
None of the given options

b

131. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?

Select correct option:

8.42 years

10.51 years

15.75 years

18.78 years

$6000(1+5\%)^{10.51} \approx 10,000$

132. Which of the following is an example of positive covenant?

Select correct option:

Maintaining firm's working capital at or above some specified minimum level

Furnishing audited financial statements periodically to the lender  
Maintaining any collateral or security in good condition

Restricting selling or leasing assets

133. Which of the following is measured by retention ratio?

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy



Dividend policy

134. Which of the following statement shows assets, liabilities, and net

worth as of a specific date?

Select correct option:

Income Statement

Balance Sheet

Owner's Equity Statement

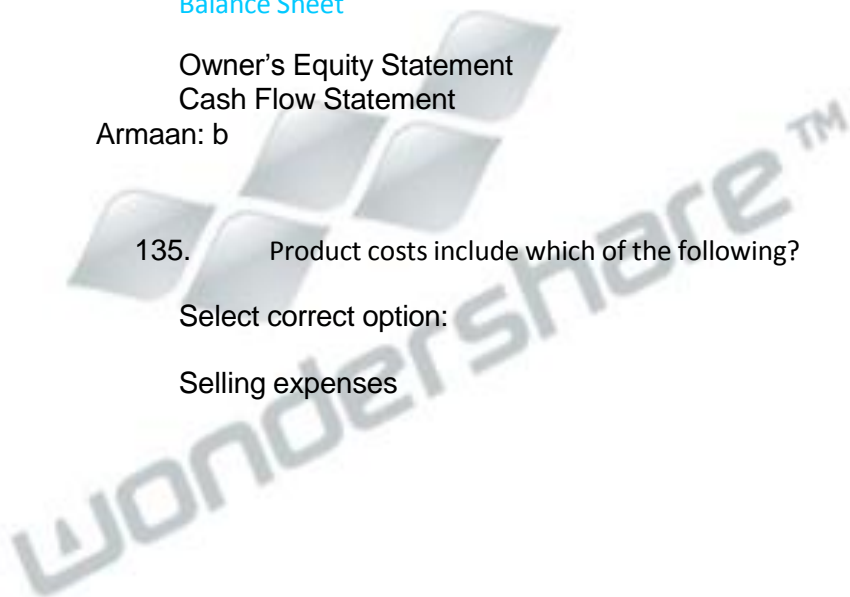
Cash Flow Statement

Armaan: b

135. Product costs include which of the following?

Select correct option:

Selling expenses



General expenses

Manufacturing overhead

Administrative expenses

136. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

Rs. 1,100

$$4100 - 3000 = 1100$$

137. What is the effective annual rate of 7 percent compounded monthly?

Select correct option:

7.00 percent

7.12 percent

7.19 percent

7.23 percent

138. Which of the following cash flow activities are reported in the Cash

Flow Statement and Income Statement?

Select correct option:

Operating Activities

Investing Activities

Financing Activities

All of the given options

139. Which of the following term refers to establish of a standard to follow

for comparison?

Select correct option:

Benchmarking 48

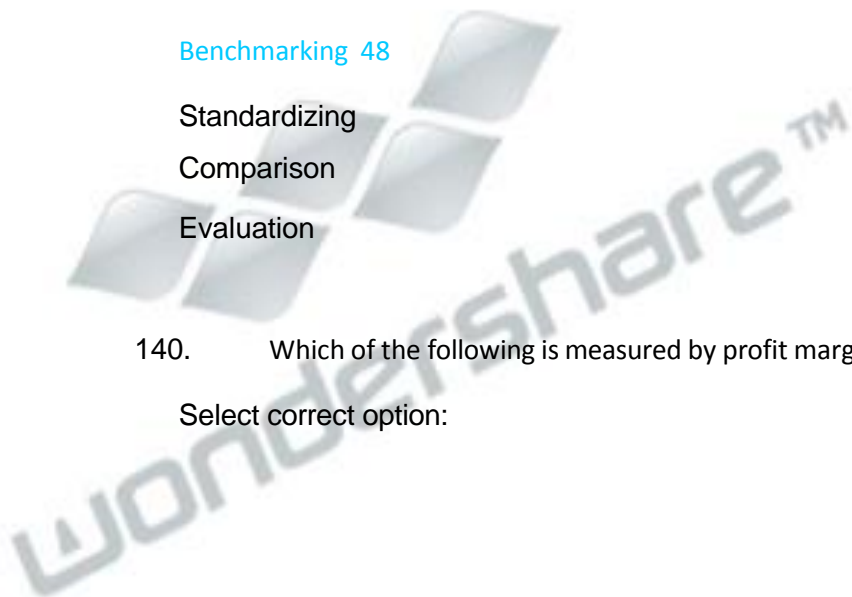
Standardizing

Comparison

Evaluation

140. Which of the following is measured by profit margin?

Select correct option:



Operating efficiency pg 44

Asset use efficiency

Financial policy

Dividend policy

141. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

Select correct option:

2% to 8%

4% to 25%

5% to 20%

10% to 50%

142. Which of the following refers to a conflict of interest between

principal and agent?

Select correct option:

Management Conflict

Interest Conflict

Agency Problem

None of the given options

143. Which of the following is a series of constant cash flows that occur at

the end of each period for some fixed number of periods?

Select correct option:

Ordinary annuity 63

Annuity due

Perpetuity

None of the given options

144. Which of the following area of finance deals with stocks and bonds?

Select correct option:

Financial institutions

International finance

Investments

All of the given options

145. 7:03 AM Which of the following is NOT an external use of financial

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statements information?

Select correct option:

Evaluation of credit standing of new customer

Evaluation of financial worth of supplier

Evaluation of potential strength of the competitor

Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

All of the given options

147. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets

of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%

solution

Net income = ROA \* total asset

Net income = 8% \* 75000 = 6000

Profit margin = net income / sales \* 100

Profit margin= $6000/100000*100= 6\%$

148. Which of the following is the process of planning and managing a

firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

Capital Budgeting

Working Capital Management

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

Select correct option:

Operating Cash Flows

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Investing Cash Flows  
Financing Cash Flows  
All of the given options

150. Quick Ratio is also known as:

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business.

They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

152. If you have Rs. 30 in asset A and Rs. 120 in another asset B, the

weights for assets A and B will be \_\_ and \_\_ respectively.

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

153. When corporations borrow, they generally promise to: I.



Make

regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

I and III

II and IV

I, III, and IV

154. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

A personal profile of the issuer

A description of the security

155. What would be the present value of Rs. 10,000 to be received after

years at a discount rate of 8 percent?

Select correct option:

Rs. 6,302

Rs. 9,981

Rs. 14,800

Rs. 15,869

156. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

Unpaid debt can result in bankruptcy or financial failure.

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

157. The preferred stock of a company currently sells for Rs. 25 per share.

The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend

forever, what is the rate of return on this stock?

Select correct option:

5.00 percent

7.00 percent

8.45 percent

10.0 percent

158. Which of the following is a special case of annuity, where the stream

of cash flows continues forever?

Select correct option:

Ordinary Annuity  
Special Annuity  
Annuity Due

Perpetuity

159. JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :

Select correct option:

Rs. 150,000

Rs. 200,000

Rs. 250,000

Rs. 400,000

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$$\text{ROTA} = \text{N.P} / \text{Total Assets}$$

$$4\% = \text{N.P} / 500,000$$

$$4\% * 500,000 = \text{N.P}$$

$$\text{N.P} = \text{Rs. } 20,000$$

$$\text{N.P Margin} = \text{N.P} / \text{Sales}$$

$$5\% = 20,000 / \text{Sales}$$

$$5\% * \text{Sales} = 20,000$$

$$\text{Sales} = 20,000 / 5\%$$

$$\text{Sales} = 400,000$$

160. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:

Average Accounting Return (AAR)

[Internal Rate of Return \(IRR\) pg 109](#)

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

161. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity

Select correct option:

Current Yield

Yield To Maturity

Coupon Yield

Capital Gains Yield

162. If a firm uses cash to purchase inventory, its quick ratio will:

Select correct option:

Increase

Decrease

Remain unaffected

Become zero

163. a firm uses cash to purchase inventory, its current ratio will:

Select correct option:

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Increase

Decrease

Remain unaffected

Become zero

1. Which one of the given options involves the sale of new securities from the issuing company to general public?
  - A. Secondary market
  - B. Primary market
  - C. Capital market
  - D. Money market
  
2. In financial statement analysis, shareholders focus will be on the:
  - A. Liquidity of the firm
  - B. Long term cash flow of the firm
  - C. Profitability and long term health of the firm
  - D. Return on investment
  
3. The statement of cash flows helps users to assess and identify all of the following except:
  - A. The impact of buying and selling fixed assets.
  - B. The company's ability to pay debts, interest and dividends.
  - C. A company's need for external financing.

D. The company's reliance on capital leases.

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

A. Fall

B. Rise

C. Remain unchanged

D. None of the given option

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

A. 1.42215

B. 2.75886

C. 3.75886

D. 4.08998

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

A. Compounded daily

B. Compounded quarterly

C. Compounded semiannually

D. Compounded annually

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



B. Rs.64, 000

C. Rs.72, 000

D. Rs.74, 000

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

a. Rs.60

b. Rs.64

c. Rs.68

d. Rs.74

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

a. Rs.149.8

b. Rs.184.9

c. Rs.198.4

d. Rs.229.9

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

a. 17%

b. 27%

c. 37%

d. 47%

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

a. 150 votes

b. 210 votes

c. 240 votes

d. 300 votes

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

a. Primary market

b. Secondary market

c. Financial market

d. Capital market

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

a. Rs.2, 576, 000

b. Rs.3, 576, 000

c. Rs.1, 576, 000

d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

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

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

a. 1.50 years

b. 2.00 years

c. 2.33 years

d. 3.00 years

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

a. 0.667

b. 1

c. 1.25

d. 1.50

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

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

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

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

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

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid

d. **All of the given options**

2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.

a. **Net present value**

b. Economic value

c. Book value

d. Future value

3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.

a. **Higher**

b. Lower

c. Constant

d. None of the given options

4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.

a. Cumulative voting

b. Straight voting

c. **Proxy voting**

d. None of the given options

5. The payment of the dividend is at the discretion of the:

a. Chairman

b. **Board of directors**

c. Shareholders

d. Stakeholders

6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
- Profitability index
  - Payback period
  - Internal rate of return**
  - Net present value
7. If two investments are mutually exclusive, then taking one of them means that:
- We cannot take the other one**
  - The other is pending for the next period
  - The projects are independent
  - None of the given options
8. Profitability index (PI) rule is to take an investment, if the index exceeds\_\_\_\_\_:
- 1
  - 0
  - 1
  - All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- Book value**
  - Intrinsic value
  - Cost
  - Market value

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

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

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

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

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

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

3. Mr. Munir purchased goods of Rs.100,000 on June 01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.

a) 100,000

**b) 97,000**

c) 103,000

d) 50,000

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

a) 3.347 approximately

b) 5.347 approximately

**c) 2.347 approximately**

d) 6.253 approximately

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

a) 234 days

**b) 223 days**

c) 245 days

d) 230 days

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

a) Bank loan

b) Commercial papers

**c) Trade credit**

d) None of the given options.



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

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

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

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

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

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

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

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

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

1. Suppose Flatiron Corporation has a debt-to- equity ratio of  $\frac{2}{3}$ . You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship

d) None of the given options

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

**a) Financial risk**

b) Portfolio risk

c) Operating risk

d) Market risk

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

a) \$202,200,000

**b) \$247,500,000**

c) \$283,500,000

d) \$321,250,000

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

a) 13.5%

b) 17.75%

**c) 15.79%**

d) 17.13%

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

a) Source of cash

b) Use of cash

**c) Neither of the source of cash nor a use of cash**

d) None of the given option

8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?

a) 62 days

b) 18 days

**c) 56 days**

d) 19 days

9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be

a) Rs.1,000,000

b) Rs.1,200,000

**c) Rs800,000**

d) Rs.1,400,000

10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.

**a) Homemade leverage**

b) Financial leverage

c) Operating leverage

d) None of the given option

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

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

E. Sunk cost

**F. Opportunity cost**

G. Financing cost

H. All of the given options

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

E. 13.07 %

F. 15.67 %

G. 16.00 %

**H. 18.80 %**

3. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an

investor.

- E. Portfolio
- F. Diversification
- G. Stock Bundle
- H. None of the given options

**4. Which of the following measures the present value of an investment per dollar invested?**

- E. Net Present Value (NPV)
- F. Profitability Index (PI)
- G. Average Accounting Return (AAR)
- H. Internal Rate of Return (IRR)

**5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:**

- E. 37.5 %
- F. 47.5 %
- G. 62.5 %
- H. 72.5 %

**6. A risk that influences a large number of assets is known as:**

- E. Systematic Risk
- F. Market Risk
- G. Non-diversifiable Risk
- H. All of the given options

**7. Which of the following risk can be eliminated by diversification?**

E. Systematic Risk

F. **Unsystematic Risk**

G. A & B

H. None of the given options

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

E. 2.6 Years

F. 3.1 Years

G. 3.6 Years

H. 4.1 Years

9. A model which makes an assumption about the future growth of dividends is known as:

E. Dividend Price Model

I. **Dividend Growth Model**

F. Dividend Policy Model

G. All of the given options

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

E. Most widely used

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

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

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

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

- I. Ordinary Annuity
- J. Perpetuity**
- K. Dividend
- L. Interest

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

- I. 15.00 %
- J. 15.34 %
- K. 15.87 %**
- L. 16.42 %

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

- I. loan; receiver
- J. dividend; issuer
- K. dividend, receiver
- L. loan; issuer**

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

- I. More**
- J. Less
- K. Same



L. All of the given options.

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

I. 30 %

J. 50 %

**K. 70 %**

L. 90 %

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

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

**L. All of the given options.**

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

**I. Present Value**

J. Future Value

K. Capital Gain

L. Net Profit

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

K. Rs. 319.45

L. Rs. 390.75

**M. Rs. 419.45**

N. Rs. 463.75
<b>9. The sensitivity of Interest Rate Risk of a bond directly depends upon:</b>
<p>H. Time to maturity</p> <p>I. Coupon rate</p> <p>J. A and B</p> <p>K. None of the given options</p>
<b>10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?</b>
<p>H. 8 %</p> <p>I. 10 %</p> <p>J. 12 %</p> <p>K. 14 %</p>

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

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

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

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

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

A. 100 Votes

B. 200 Votes

**C. 300 Votes**

D. 400 Votes

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

A. Rs. 30

**B. Rs. 40**

C. Rs. 50

D. Rs. 60

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

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

B. These stocks have dividend priority over common stocks

C. These stocks have stated liquidating value

D. These bonds hold credit ratings much like bonds

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

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

A. Rs. 30000

B. Rs. 40,500

C. Rs. 50,000

**D. Rs. 60,000**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**D. Opportunity cost in both Case I and Case II**

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

**is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share. What will be the total percentage return?**

**A. 22.85 %**

**B. 25.16 %**

**C. 30.52 %**

**D. 34.29 %**

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

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

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

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

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

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

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

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

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

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

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**

D. None of the given options

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

A. Rs. 29,454

B. Rs. 34,325

C. Rs. 39,272

D. Rs. 49,023

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

A. Compounding quarterly

B. Compounding monthly

C. Compounding semi-annually

D. Compounding annually

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

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

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

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

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

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

A. Rs. 1,556

**B. Rs. 1,712**

C. Rs. 2,082

D. Rs. 2,420

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

**A. Convertible Bonds**

B. Income Bonds

C. Put Bonds

D. None of the given options

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

A. Move in the same direction

**B. Move in the opposite direction**

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

D. Have no relation with each other

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

A. Less

B. Zero

**C. More**

D. None of the given options

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

A. 6.639%

B. 8.251%

C. 10.00%

**D. 11.43%**

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

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

Select correct option:

- Sunk
- Opportunity

Highlight the correct option:

- 1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.
  - a. Time interest earned
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
  
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?



- a. Return on short as well as long term investments
- b. Return on equity and return on debt
- c. Return on equity and profit margin
- d. All of the given options

3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?

- a. Increase
- b. Decrease
- c. Remain unchanged
- d. None of the given option

4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?

- a. 0.38 times
- b. 0.58 times
- c. 0.78 times
- d. 0.98 times

- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?
- a. Rs. 2.5 million
  - b. Rs. 3 million
  - c. Rs. 3.5 million
  - d. Rs.4.5 million
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%.The return on assets would be \_\_\_\_\_.
- a. 9.414 %
  - b. 10.414 %
  - c. 11.412 %
  - d. 12.414 %
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions
  - b. Rs.250 millions
  - c. Rs.350 millions
  - d. Rs.500 millions

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

- a. 12.29%
- b. 14.29%
- c. 16.29%
- d. 18.92%



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

- a. 25 %
- b. 35 %
- c. 29%
- d. 45%

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

- a. Rs.251.415 millions

b. Rs.261.415 millions

c. Rs.271.415 millions

d. Rs.281.415 millions

Choose and highlight the right option:

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

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

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

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

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

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

4. **Present value factor is:**

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

5. **Depreciation expense is:**

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

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

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

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

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

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

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

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

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

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

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

Total marks: 10

1. **Investing activities include:**

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

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

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

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

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

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

- a. **marketable securities**

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





5. **The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.**

- a. *Actual cash income*
- b. **Un earned income**
- c. **Coming year income**
- d. **Last year's income**

6. **Ratios look at the relationships between individual values and relate them to how a company:**

- a. **Has performed in the past**
- b. **Might perform in the future**
- c. *Both a & b*
- d. **None of the given options**

7. **The current ratio is also known as:**

- a. *Working capital ratio*
- b. **Leverage ratio**
- c. **Turnover ratio**
- d. **None of the given options**

8. \_\_\_\_\_ **is concerned with the relationship between the long terms liabilities that a business has and its capital employed.**

- a. *Gearing*
- b. *Acid test ratio*
- c. *Working capital management*
- d. *All of the given options*



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

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

10. Balance sheet items expressed as percentage of:

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

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

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

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

- a. Trading in a given auction exchange takes place at a single site on the floor of the exchange.
- b. Transaction prices of shares are communicated almost immediately to the public.

- c. Listing.
- d. **All of the given options (a, b and c).**

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

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

Total tax is \$61,250.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**a. Profitability Ratios**

**b. Liquidity ratios**

**c. Debt ratios**

**d. Turnover ratios**

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

**e. 0**

f. 0.2

g. 0.1

**h. At least one**

4. Interest Coverage Ratios are also known as:

**a. Times Interest Earned (TIE) Ratios**

b. Liquidity Ratios

c. Debt Ratios

d. Asset Management Ratios

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

**a. operating efficiency (as measured by profit margin)**

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

**c. financial Leverage (as measured by equity multiplier)**

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

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

**a. comparison**

b. identification

c. calculation

d. liability

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

**a. an ordinary annuity**

b. annuity due

c. multiple cash flows

d. perpetuity

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

**a. 21.15%**

b. 12%

c. 18%

**d. 30%**

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

**a. \$9,806.56**

b. \$9000



c. \$10000

d. \$9500

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

a. Rs.100

b. Rs.10

c. Rs.90

d. Rs.1000

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

M. Total Assets

N. Total Liabilities

O. Net Profit

P. Gross Profit

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

M. Income Statement

N. Balance Sheet

O. Cash Flow Statement

P. Owner's Equity Statement

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

M. Primary Market

N. **Secondary Market**

O. Tertiary Market

P. None of the given options

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

M. **Liquidity**

N. Financial Leverage

O. Profitability

P. Market Value

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

M. Planning Process

N. Capital Structure

O. **Capital Budgeting**

P. Managing Process

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

M. 6.37 %

N. 8.37 %

O. **15.7 %**

P. 12.5 %

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

M. 8 times

N. **9 times**

O. 10 times

P. 11 times

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

O. **Total Assets**

P. Total Liabilities

Q. Total Capital

R. Net Profit

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

L. Sole Proprietorship

M. Partnership

N. **Corporation**

O. None of the given options

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

L. Inventory

M. Accounts Payable

N. Accounts Receivable

O. **Depreciation**

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%

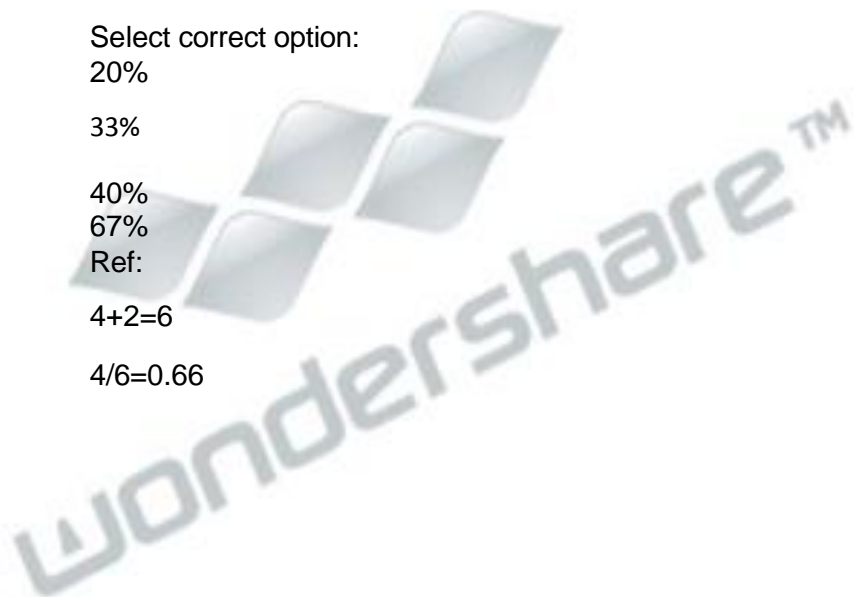
40%

67%

Ref:

$4+2=6$

$4/6=0.66$



$0.66 \times 100 = 66.67$  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

wondershare™

Question # 14 of 15 ( Start time: 02:46:33 PM ) Total Marks: 1

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share. Over the last year, he received a dividend of Rs. 2.50 per share. At the end of the year, the stock sells for Rs. 28. As per given information, what will be the capital gains yield ? Select correct option:

15.85%

25.10%

27.27%

45.00%

Capital gain yield formula  
 $(28-22)/22$   
 $=0.2727$

Question # 15 of 15 ( Start time: 02:48:05 PM ) Total Marks: 1

Which of the following term refers to the situation when investors loan out the money ? Select correct option:

Leverage

Levering

Un-levering pg 152

Loaning

Question # 1 of 15 ( Start time: 11:23:11 AM ) Total Marks: 1 Which of the following activities does not increase cash ? Select correct option:

Increasing current liabilities  
Increasing equity

Increasing current assets other than cash pg 163

Decreasing fixed assets

Question # 3 of 15 ( Start time: 11:25:12 AM ) Total Marks: 1

The increase in debt financing raises the required return on equity because the risk born by the investors increases which is called:

Select correct option:

Financial Risk pg 155

Business Risk

Functional Risk

None of the given options

Question # 5 of 15 ( Start time: 11:27:05 AM ) Total Marks: 1 What will happen to cash cycle if payable period is lengthened ? Select correct option:

Cash cycle increases

Cash cycle decreases 167

Cash cycle remain unaffected

Cash cycle has to do nothing with payable period

Question # 6 of 15 ( Start time: 11:28:03 AM ) Total Marks: 1

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

Select correct option:

1st proposition pg 153

2nd proposition

3rd proposition

None of the given options

Question # 7 of 15 ( Start time: 11:29:12 AM ) Total Marks: 1

The total market value of a company's stocks is calculated as Rs. 250

million and the

total market value of the company's debt are calculated as Rs. 150 million. What percent of the firm's financing is equity ?

Select correct option:

33.33%

50.00%

62.50%

85.00%

$=250+150=400$

$250/400=62.5$  equity 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

Question # 5 of

15 ( Start time:

10:55:09 PM )

Total Marks: 1

Suppose market value exceeds book value by Rs. 200,000.  
What will be the after-tax proceeds if

there is a tax rate of 35 percent ?

Select correct option:

Rs. 97,500

Rs. 105,600

Rs. 130,000

Rs. 150,000

$200000 * 35\% = 70000$

$200000 - 70000 = 130000$

Question # 9 of 15 ( Start time: 02:23:24 PM ) Total Marks: 1

In which type of projects, the unequal lives of the projects do affect the analysis ? Select correct option:

- Mutually exclusive
- Dependent
- Independent
- Correlated

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

Select correct option:

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

First find dividend yield then capital gain yield then plus both answer

Let see

Dividend yield =  $1.50/23 = 0.06521\%$

Capital gain yield =  $(31-23)/23 = 0.3478\%$

Total percentage return  $0.06521 + 0.3478 * 100 = 41.30$

The book value of a system is Rs. 35,500 at the end of year 4 of its life. What will be the total after-tax cash flow from sale if we sell this system for Rs. 20,000 at this time? (Tax rate is 35%)

Select correct option:

- Rs. 15,000
- Rs. 15,220
- Rs. 20,327
- Rs. 25,425

Which one of the following statement is INCORRECT regarding MACRS depreciation ?  
Select correct option:

Every asset is assigned to a particular class which establishes asset's life for tax purposes. Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage.

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

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

Total portfolio risk is equal to :  
Select correct option:

- systematic risk plus non-diversifiable risk
- unsystematic risk plus diversifiable risk
- systematic risk plus market risk
- systematic risk plus diversifiable risk

Mr. Nadeem has bought 100 shares of a corporation one year ago at Rs. 22 per share.

Over the last year, he received a dividend of Rs. 2.50 per share. As per given information what will be the dividend yield ?

Select correct option:

9.92%

11.36%

21.12%

40.00%

$$d.y = 2.50/22 = 0.1136\%$$

Question # 1 of 15 ( Start time: 09:05:41 PM ) Total Marks: 1

Which of the following type of risk can be eliminated by diversification ?

Select correct option:

Systematic Risk

Market Risk

Unsystematic Risk

None of the given options

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

Cost of debt

Cost of preferred stock

Cost of common equity

Cost of retained earnings

None of the given options

What will be the risk premium for a stock that has an expected return rate of

14% and a

risk-free rate of 5% ?

Select correct option:

6%

9%

15 %

24%

14-5=9

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Which of the following is NOT an example of systematic risk ? Select correct option:

Interest Rate

Inflation

Strike call in a company

Gross Domestic Product

Your gain (or loss) on an investment that you buy is called your : Select correct option:

Risk on investment

Return on investment

Gain on investment  
loss on investment

Standard Company purchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is worth 25% of the purchase price now and it is being sold at this price. What is the vehicle's market value ?

Select correct option:

Rs. 14,875

Rs. 112,500

Rs. 337,500

Rs. 230,000

Question # 3 of 15 ( Start time: 05:24:09 PM ) Total Marks: 1

ABC Corporation has two shareholders; Mr. Aamir with 50 shares and Mr. Imran with

shares. Both want to be elected as one of the four directors but Mr. Imran doesn't want Mr. Aamir to be director. How much votes would Mr. Aamir be able to cast as per cumulative voting procedure?

Select correct option:

70

120

200  
280

$4 \times 50 = 200$

Question # 4 of 15 ( Start time: 05:25:30 PM ) Total Marks: 1

In MACRS property classes, 7-year class includes which of the following ?  
Select correct option:

Equipment used in research

Autos & computers

Most industrial equipment

All of the given options

Question # 5 of 15 ( Start time: 05:26:42 PM ) Total Marks: 1

Standard deviations for Investment A and Investment B are 15% and 32% respectively.

This indicates that :

Select correct option:

Investment A is more volatile than

Investment B

Investment A is equally volatile to

Investment B

Investment B is less volatile than

Investment A

Investment B

Investment B is more volatile than

Investment A

Question # 6 of 15 ( Start time: 05:27:45 PM ) Total Marks: 1 Systematic Risk is also known as :

Select correct option:

Diversifiable Risk

Market Risk

Residual Risk

Asset-specific Risk

Question # 7 of 15 ( Start time: 05:28:20 PM ) Total Marks: 1

A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?

Select correct option:

Rs. 40,000

Rs. 55,000

Rs. 65,000

Rs. 72,000

$$600000 * 1.12 = 672000$$

$$672000 - 600000 = 72000$$

Question # 8 of 15 ( Start time: 05:29:04 PM ) Total Marks: 1

Unsystematic Risk is also known as :

Select correct option:

Diversifiable Risk

Market Risk

Non-diversifiable Risk

Question # 9 of 15 ( Start time: 05:29:57 PM ) Total Marks: 1

Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?

Select correct option:

Payback Period

Net Present Value

Profitability Index



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## Internal Rate of Return

Question # 10 of 15 ( Start time: 05:30:21 PM ) Total Marks: 1 Which of the following is NOT a quality of IRR?

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments

Easily communicated and understood

Can be estimated even without knowing the discount rate

Question # 11 of 15 ( Start time: 05:30:58 PM ) Total Marks: 1

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

Select correct option:

Stock Bundle

Portfolio

Capital Structure

None of the given options

Question # 12 of 15 ( Start time: 05:31:49 PM ) Total Marks: 1

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

Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 14 of 15 ( Start time: 05:32:39 PM ) Total Marks: 1

What would be the standard deviation of returns for an investment that has a variance of

0.0075 ?

Select correct option:

0.08660

0.09101

0.09487

0.10521

Question # 15 of 15 ( Start time: 05:33:12 PM ) Total Marks: 1

Investors demand a higher yield as compensation to the risk of possible default. This extra premium is called:

Select correct option:

Interest rate risk premium

Inflation risk premium

Default risk premium

Taxability premium

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Question # 1 of 15 ( Start time: 03:08:45 PM ) Total Marks: 1

What will be the cash inflow if we have sales of Rs. 400,000 and accounts receivable are decreased by Rs. 70,000 ?

Select correct option:

Rs. 70,000

Rs. 230,000

Rs. 330,000 not sure

Rs. 470,000

Question # 4 of 15 ( Start time: 03:11:23 PM ) Total Marks: 1

The relationship between real and nominal returns is described by the: Select correct option:

M&M Proposition

Capital Asset Pricing Model

Fisher's Effect

## BCG Matrix

Question # 5 of 15 ( Start time: 03:12:03 PM ) Total Marks: 1

Which of the following set of cash flows should be considered in the decision at hand? Select correct option:

Relevant Cash Flows

Incremental Cash Flows

Negative Cash Flows

All of the given options

Question # 6 of 15 ( Start time: 03:13:39 PM ) Total Marks: 1

What will be the real rate if the nominal rate is 14% and the inflation rate is 6%? Select correct option:

6.02%

7.55%

10.0%

14.3%

$(1+r)/(1+h)$

$1.14/1.06=1.07$

$1.07*100=107.55$

$107.55-100=7.55$

Question # 10 of 15 ( Start time: 03:16:02 PM ) Total Marks: 1

The total market value of a company's stocks is calculated as Rs. 250 million and the

total market value of the company's debt are calculated as Rs. 100 million. What percent of the firm's financing is debt ?

Select correct option:

28.57%

50.00%

62.50%

70.00%

$250/350 * 100 - 100 = 28.57$

Question # 13 of 15 ( Start time: 03:18:22 PM ) Total Marks: 1

Which of the following is referred as a statistical measure of the variability of a distribution around its mean ?

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question # 14 of 15 ( Start time: 03:19:51 PM ) Total Marks: 1

A set of possible values that a random variable can assume and their associated

probabilities of occurrence are referred as :

Select correct option:

Probability distribution

The expected return

The standard deviation

Coefficient of variation

Question # 15 of 15 ( Start time: 03:21:16 PM ) Total Marks: 1

A project whose acceptance does not prevent or require the acceptance of one or more alternative projects is referred to as a(n):

Select correct option:

mutually exclusive project

independent project

dependent project

contingent project

Question # 1 of 15 ( Start time: 02:04:33 PM ) Total Marks: 1

Which of the following is the most common capital budgeting technique?

Select correct option:

Payback Period

Net Present Value

Internal Rate of Return

Profitability Index

Question # 2 of 15 ( Start time: 02:05:04 PM ) Total Marks: 1

While performing the feasibility analysis for a project, an operating cash flow of Rs.

500,000 has been calculated. Net working capital has declined by Rs. 45,000. There was no capital spending during the year. What will be the total cash flow for the project ? Select correct option:

Rs. 200,000

Rs. 315,000

Rs. 455,000

Rs. 545,000

Question # 3 of 15 ( Start time: 02:05:57 PM ) Total Marks: 1

Which of the following formula is used to calculate the price of a zero growth stock?

Select correct option:

$$P_0 = D / R$$

$$P_0 = D_0 (1+g) / R$$

$$P_0 = D_0(1+g) / (R - g)$$

$$P_0 = D_1 / (R - g)$$

Question # 4 of 15 ( Start time: 02:07:26 PM ) Total Marks: 1

Which of the following statement is NOT correct regarding cost of preferred shares ? Select correct option:

Preferred stock has fixed dividend paid every period forever

Fixed dividend paid every period makes preferred stock a perpetuity



Cost of preferred stock can be estimated by using firm's bond ratings

Cost of preferred stock can be estimated by observing the required return on other similarly rated shares of preferred stock

Question # 5 of 15 ( Start time: 02:09:00 PM ) Total Marks: 1

IRR and NPV rules always lead to identical decisions as long as: Select correct option:

Cash flows are conventional  
Cash flows are independent

Cash flows are both conventional and independent  
None of the given options

Question # 6 of 15 ( Start time: 02:09:28 PM ) Total Marks: 1

\_\_\_\_\_ paid by corporation is tax deductible but \_\_\_\_\_ paid are not tax deductible.

Select correct option:

Interest; dividend  
Dividend; interest  
Bonus; interest

None of the given options

Question # 8 of 15 ( Start time: 02:10:43 PM ) Total Marks: 1

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

Select correct option:

Sunk  
Opportunity  
Fixed  
Variable

Question # 10 of 15 ( Start time: 02:11:32 PM ) Total Marks: 1

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

Select correct option:

2.6 Years

3.1 Years

3.7 Years

4.1 Years

Question # 12 of 15 ( Start time: 02:12:30 PM ) Total Marks: 1

Which of the following statement is TRUE regarding Average Accounting Return? Select correct option:

AAR is a rate that makes the NPV equal to zero

An investment is acceptable if its AAR is greater than a benchmark AAR  
An investment is acceptable if its AAR is

less than a benchmark AAR None of the given options

Question # 13 of 15 ( Start time: 02:14:04 PM ) Total Marks: 1

Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

Select correct option:

Rs. 4.41

Rs. 6.12

Rs. 7.35

Rs. 8.93

$$5/100=0.05+1=1.05^5=1.2762*7=8.93$$

Question # 15 of 15 ( Start time: 02:15:46 PM ) Total Marks: 1

An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

Select correct option:

Positive; positive

Positive; negative

Negative; negative

Negative; positive

2. AST Company's debt-to-total assets ratio is 0.45. What is its debt-to-equity ratio?

Select correct option:

0.101

0.220

0.667

0.818

Reference:(1-0.45=0.55)  
=0.45/0.55=0.818

3. What amount a borrower would pay at the end of fourth year with a 4-year,

12%, interest-only loan of Rs. 8,000?

Select correct option:

Rs. 1,360

Rs. 2,000

Rs. 5,625

Rs. 8,960

Reference:  $8000 \times 12 / 100 = 8960$

4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?

Select correct option:

Rs. 30.19

Rs. 43.52

Rs. 56.53

Rs. 71.25

Reference:  $D \times (1 + g) / (r - g)$

$4.75 \times (1 + 0.05) / (0.12 - 0.05) = 71.25$

5. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?

Select correct option:

Semiannually

Quarterly

Monthly

Daily

Reference:  $(1 + APR/m)^m - 1$

APR=9

M=30

$$(1+9/30)^{30}-1=9.38$$

6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?

Select correct option:

100 votes

200 votes

300 votes

400 votes

Reference:  $100 \times 4 = 400$

7. SNT Corporation has policy of paying a Rs. 6 per share dividend every year.

If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

Select correct option:

Rs. 30

Rs. 40

Rs. 50

Rs. 60

Reference:  $6/0.15=40$

# Mega Quiz File

## (ACC501)

1. Which of the following issue is NOT covered by “Investment” area of finance?  
Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

MISHIII BRAVE

**2. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**3. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**4. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

**5. Cash flow from assets involves which of the following component(s)?**

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

**All of the given options**

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

**7. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

**All of the given options**

**8. Which of the following costs are reported on the income statement as the cost of goods sold?**

Select correct option:

Product cost

Period cost

**Both product cost and period cost**

Neither product cost nor period cost

**9. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?**

Select correct option:

5 days

36 days

48 days

**73 days**

**10. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**11. In which type of market, new securities are traded?**

Select correct option:

**Primary market**

Secondary market

Tertiary market

None of the given options

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

Select correct option:

Liquidity Ratios

Long-term Solvency Ratios

Profitability Ratios



Market Value Ratios

**13. shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

**14. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

Operating activity

Investing activity

Financing activity

None of the given options

**15. Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

**16. of the following statement measures performance over a specific period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Retained Earning Statement

**17. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

**18. Net Income after taxation differs from Net Cash Flow from operations because:**

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

**19. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**20. A portion of profits, which a company retains itself for further expansion, is known as:**

Select correct option:

Dividends

**Retained Earnings**

Capital Gain

None of the given options

**21. Which one of the following is NOT a liquidity ratio?**

Select correct option:

Current Ratio

Quick Ratio

**Cash Coverage Ratio**

Cash Ratio

**22. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?**

Select correct option:

**Profit Margin**

Return on Assets

Return on Equity

Total Assets Turnover

**23. Which of the following is an example of capital spending?**

Select correct option:

### **Purchase of Fixed Assets**

- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**24. Which of the following is measured by profit margin?**

Select correct option:

### **Operating efficiency**

- Asset use efficiency
- Financial policy
- Dividend policy

**25. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

### **Financial Analysts**

- Auditors
- Marketers

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

Select correct option:

- Liquidity Ratios
- Leverage Ratios
- Profitability Ratios

### **Market Value Ratios**

**27. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

### **Positive**

- Negative
- zero
- None of the given options

**28. which of the following is not a form of business organization**

Select correct option:

- sole proprietorship
- partnership
- joint stock company

## **cooperative Society**

**29. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**30. The accounting definition of income is:**

Select correct option:

Income = Current Assets – Current Liabilities

Income = Fixed Assets – Current Assets

Income = Revenues – Current Liabilities

**Income = Revenues – Expenses**

**31. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

**32. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax**

**proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600

Rs. 148,500

**Rs. 165,000**

Rs. 225,000

**33. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

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

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

Market Value Ratios

**35. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**36. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**37. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**38. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

**39. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period**

Net Present Value

Average Accounting Return

None of the given options

**40. Period costs include which of the following?**

Select correct option:

**Selling expense**

Raw material

Direct labor

Manufacturing overhead

**41. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**42. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

**43. Which of the following issue is NOT covered by “Investment” area of finance?**

Select correct option:

Best mixture of financial investment

**International aspects of corporate finance**

Associated risks and rewards

Pricing financial assets

**44. Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

Select correct option:

**Operating activity**

- Investing activity
- Financing activity
- None of the given options

**45. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

- 1.01
- 1.26
- 1.39
- 1.52**

**46. In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

- Sole-proprietorship
- General Partnership**
- Limited Partnerhsip
- Corporation

**47. a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

- Increase
- Decrease
- Remain unaffected**
- Become zero

**48. Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

- Ordinary Annuity**
- Special Annuity
- Annuity Due
- Perpetuity

**49. Which of the following is an example of positive covenant?**

Select correct option:

- Maintaining any collateral or security in good condition**

Limiting the amount of dividend according to some formula  
Restricting pledging assets to other lenders  
Barring merger with another firm

**50. Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Markup

Markdown

**51. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

**Call provision**

Protective covenants

**52. \_\_\_\_\_ shows the sources from which cash has been generated and how it has been spent during a period of time?**

Select correct option:

**Income Statement**

Balance Sheet

Cash Flow Statement

Owner's Equity Statement

**53. Which of the following is a cash flow from financing activity?**

Select correct option:

Cash outflow to the government for taxes

**Cash outflow to shareholders as dividends**

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

**54. Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation



**55. The principal amount of a bond at issue is called:**

Select correct option:

**Par value**

Coupon value

Present value of an annuity

Present value of a lump sum

**56. Which of the following relationships holds TRUE if a bond sells at a discount?**

Select correct option:

Bond Price < Par Value and YTM > coupon rate

Bond Price > Par Value and YTM > coupon rate

Bond Price > Par Value and YTM < coupon rate

Bond Price < Par Value and YTM < coupon rate

**57. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

**Debt securities or bonds**

Common Stocks

Preferred Stock

All of the given options

**58. Which of the following item provides the important function of shielding part of income from taxes?**

Select correct option:

Inventory

Supplies

Machinery

**Depreciation**

**59. A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be the total worth of the firm's assets?**

Select correct option:

Rs. 300,000

Rs. 500,000

**Rs. 800,000**

Rs. 1100,000

**60. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

Sole-proprietorship  
General Partnership  
Limited Partnership  
**Corporation**

**61. in which form of Business, owners have limited liability.**

Select correct option:

sole proprietorship  
partnership  
joint stock company  
**none of the above**

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

Select correct option:

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

**CF from Assets = CF to Creditors + CF to Stockholder**

**63. The difference between current assets and current liabilities is known as:**

Select correct option:

Surplus Asset  
Short-term Ratio  
**Working Capital**  
Current Ratio

**64. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186  
Rs. 18,256  
**Rs. 22,697**  
Rs. 28,253

**65. Which of the following statement is considered as the accountant's snapshot of firm's accounting value as of a particular date?**

Select correct option:

Income Statement

## **Balance Sheet**

Cash Flow Statement  
Retained Earning Statement

**66. The principal amount of a bond at issue is called:**

Select correct option:

## **Par value**

Coupon value  
Present value of an annuity  
Present value of a lump sum

**67. Which of the following statement about bond ratings is TRUE?**

Select correct option:

Bond ratings are typically paid for by a company's bondholders.  
Bond ratings are based solely on information acquired from sources other than the bond issuer.

**Bond ratings represent an independent assessment of the credit-worthiness of bonds.**

None of the given options

**68. Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles  
General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

**69. Which of the following is NOT an internal use of financial statements information?**

Select correct option:

## **Planning for the future through historic information**

Evaluation of performance through profit margin and return on equity  
Evaluation of credit standing of new customer

**None of the given options**

**70. A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.**

**What is the retention ratio for the firm?**

Select correct option:

12 %

25 %

**40 %**

60 %

**71. A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

**Dividends**

Retained Earnings

Capital Gain

None of the given options

**72. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

Financial institutions

International finance

Investments

**All of the given options**

**73. Which of the following ratios is NOT from the set of Asset Management Ratios?**

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

**Return on Assets**

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

Select correct option:

**Rs. 1,000 because it has the higher future value**

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

**75. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**76. You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

**10.51 years**

15.75 years

18.78 years

**77. Which of the following is an example of positive covenant?**

Select correct option:

**Maintaining firm's working capital at or above some specified minimum level**

Furnishing audited financial statements periodically to the lender

Maintaining any collateral or security in good condition

Restricting selling or leasing assets

**78. Which of the following is measured by retention ratio?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial policy

**Dividend policy**

**79. Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:

Income Statement

**Balance Sheet**

Owner's Equity Statement

Cash Flow Statement

**80. Product costs include which of the following?**

Select correct option:

Selling expenses

General expenses

**Manufacturing overhead**

Administrative expenses

**81. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much**

**compounded interest was earned?**

Select correct option:

Rs. 500

Rs. 752

Rs. 1,052

**Rs. 1,100**

**82. What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

7.00 percent

**7.12 percent**

7.19 percent

7.23 percent

**83. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

**Operating Activities**

Investing Activities

Financing Activities

All of the given options

**84. Which of the following term refers to establish of a standard to follow for comparison?**

Select correct option:

**Benchmarking**

Standardizing

Comparison

Evaluation

**85. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**86. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?**

Select correct option:

- 2% to 8%
- 4% to 25%
- 5% to 20%**
- 10% to 50%

**87. Which of the following refers to a conflict of interest between principal and agent?**

Select correct option:

- Management Conflict
- Interest Conflict
- Agency Problem**
- None of the given options

**88. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

- Ordinary annuity**
- Annuity due
- Perpetuity
- None of the given options

**89. Which of the following area of finance deals with stocks and bonds?**

Select correct option:

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

**90. Which of the following is NOT an external use of financial statements information?**

Select correct option:

- Evaluation of credit standing of new customer
- Evaluation of financial worth of supplier**
- Evaluation of potential strength of the competitor
- Evaluation of performance through profit margin and return on equity

**91. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

- Financial institutions
- International finance
- Investments

**All of the given options**

92. If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?

Select correct option:

4.30%

**6.00%**

10.70%

16.73%

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

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

**Operating Cash Flows**

Investing Cash Flows

Financing Cash Flows

All of the given options

95. Quick Ratio is also known as:

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

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

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options



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

Select correct option:

**20%; 80%**

37%; 63%

63%; 37%

80%; 20%

98. When corporations borrow, they generally promise to: I. Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm

Select correct option:

I and II

**I and III**

II and IV

I, III, and IV

99. Which of the following is NOT included in a bond indenture?

Select correct option:

The basic terms of bond issue

The total amount of bonds issued

**A personal profile of the issuer**

A description of the security

100. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

Select correct option:

**Rs. 6,302**

Rs. 9,981

Rs. 14,800

Rs. 15,869

101. Which of the following statement is TRUE regarding debt?

Select correct option:

Debt is an ownership interest in the firm.

**Unpaid debt can result in bankruptcy or financial failure.**

Debt provides the voting rights to the bondholders.

Corporation's payment of interest on debt is fully taxable.

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

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

**103. Which of the following is a special case of annuity, where the stream of cash flows**

**continues forever?**

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

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

Select correct option:

Capital Structuring

Capital Rationing

**Capital Budgeting**

Working Capital Management

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

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

**All of the given options**

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

Select correct option:

Float

**Collar**

Limit

Surplus

**107. Which of the following is the acronym for GAAP?**

Select correct option:

Generally Applied Accountability Principles

General Accounting Assessment Principles

**Generally Accepted Accounting Principles**

General Accepted Assessment Principles

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

Select correct option:

To maintain a high ratio of current assets to sales

**To maintain a low ratio of current assets to sales**

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

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

**109. Quick Ratio is also known as:**

Select correct option:

Current Ratio

**Acid-test Ratio**

Cash Ratio

None of the given options

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

Select correct option:

Sole-proprietorship

**Partnership**

Corporation

None of the given options

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

Select correct option:

20%; 80%

37%; 63%

63%; 37%

80%; 20%

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

Select correct option:

Carrying costs

**Shortage costs**

Storing costs

financing costs

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

Select correct option:

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

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

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

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

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

Select correct option:

It is the most basic form of calculating interest.

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

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

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

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

Select correct option:

**Sole-proprietorship**

Partnership

Corporation

None of the given options

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

Select correct option:

It takes risk into account

It takes time into account

It takes compound interest into account

**All of the given options**

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

Select correct option:

- 5.00 percent
- 7.00 percent
- 8.45 percent
- 10.0 percent

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

Select correct option:

**Liquidity Ratios**

- Long-term Solvency Ratios
- Profitability Ratios
- Market Value Ratios

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

Select correct option:

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

**CF from Assets = CF to Creditors + CF to Stockholder**

**120. One would be indifferent between taking and not taking the investment when:**

Select correct option:

- NPV is greater than Zero
- NPV is equal to Zero
- NPV is less than Zero

**All of the given options**

**121. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

- Revenue
- Expenses

**Depreciation**

All of the given options

**122. Which of the following is NOT a shortcoming of Payback Rule?**

Select correct option:

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

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

Select correct option:

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

**124. What is the effective annual rate of 7 percent compounded monthly?**

Select correct option:

- 7.00 percent
- 7.12 percent
- 7.19 percent
- 7.23 percent

**125. Which of the following forms of business organizations is created as a distinct legal entity owned by one or more individuals or entities?**

Select correct option:

- Sole-proprietorship**
- General Partnership
- Limited Partnership
- Corporation

**126. Business risk depends on which of the following risk of the firm's assets ?**

Select correct option:

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

**127. Which of the following type of risk can be eliminated by diversification?**

Select correct option:

**Systematic Risk**

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

**128. Which of the following measure reveals how much profit a company generates with the money shareholders have invested?**

Select correct option:

- Profit Margin
- Return on Assets

**Return on Equity**

- Debt-Equity Ratio

**129. Which of the following is(are) the basic area(s) of Finance?**

Select correct option:

- Financial institutions
- International finance
- Investments

**All of the given options**

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

Select correct option:

- Cost of debt
- Cost of preferred stock

**Cost of common equity**

- Cost of retained earnings

**131. Systematic Risk is also known as:**

Select correct option:

- Diversifiable Risk

**Market Risk**

- Residual Risk
- Asset-specific Risk

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

Select correct option:

120  
200  
280

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

Select correct option:

Risk Return

**Risk Premium**

Risk Factor

None of the above

**134. A group of assets such as stocks and bonds held by an investor.**

Select correct option:

**Portfolio**

Capital Structure

Budget

None of the above

**135. If the variance or standard deviation is larger then the spread in returns will be:**

Select correct option:

Less

**More**

Same

None of the Above

**136. The following risk is entirely wiped out by Diversification.**

Select correct option:

Systematic Risk

**Unsystematic Risk**

Portfolio Risk

Total Risk

**137. The objective for using the concept of Diversification is to :**

Select correct option:

Minimize the Risk

Maximize the return

**A&B**

None of the Above



**138. While studying the relationship in risk and return, It is commonly known that:**  
Select correct option:

- Higher the risk, lower the return
- Lower the risk, higher the return
- Higher the risk, higher the return**
- None of the above

**139. This type of risk affects almost all types of assets.**  
Select correct option:

- Systematic Risk**
- Unsystematic Risk
- Total Risk
- Portfolio Risk

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

**140. According to the given data, the Capital Gain will be:**  
Select correct option:

- 10,500
- 7,500**
- 10,000
- 7,000

**141. According to the given data, the Dividend yield will be:**  
Select correct option:

- 8.50 %
- 6.25%
- 8.00%**
- 6.67%

**142. According to the given data, Total Percentage Returns will be:**  
Select correct option:

- 20%
- 28%**
- 32%
- 35%

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

Select correct option:

Secondary market

**Primary market**

Capital market

Money market

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

Select correct option:

Liquidity of the firm

Long term cash flow of the firm

**Profitability and long term health of the firm**

Return on investment

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

Select correct option:

The impact of buying and selling fixed assets.

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

A company's need for external financing.

**The company's reliance on capital leases.**

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

Select correct option:

**Fall**

Rise

Remain unchanged

None of the given option

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

Select correct option:

1.42215

2.75886

3.75886

**4.08998**

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

Select correct option:

**Compounded daily**

Compounded quarterly

Compounded semiannually

Compounded annually

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

Select correct option:

a.Rs. 200 million

b.Rs.240 million

c.Rs.275 million

**d.Rs.290 million**

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

Select correct option:

6.12 times

7.11 times

**8.11 times**

9.11 times

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

Select correct option:

20.00%

20.50%

21.00%

**21.99%**

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

Select correct option:

Rs.60, 000

**Rs.64, 000**

Rs.72, 000

Rs.74, 000

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

Select correct option:

a. Rs.60

**b. Rs.64**

c. Rs.68

d. Rs.74

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

Select correct option:

**a. Rs.149.8**

b. Rs.184.9

c. Rs.198.4

d. Rs.229.9

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

Select correct option:

a. 17%

b. 27%

**c. 37%**

d. 47%

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

Select correct option:

a. 150 votes

**b. 210 votes**

c. 240 votes

d. 300 votes

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

- a. Opportunity cost

**b. Sunk cost**

- c. Decremental cost
- d. None of the given option

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

Select correct option:

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

**163. Treasury notes and bonds are:**

Select correct option:

- Default free
- Taxable
- Highly liquid

**All of the given options**

**164. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.**

Select correct option:

**Net present value**

- Economic value
- Book value
- Future value

**165. When real rate is high, all the interest rates tend to be \_\_\_\_\_.**

Select correct option:

**Higher**

- Lower
- Constant
- None of the given options

**166. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.**

Select correct option:

- Cumulative voting
- Straight voting

**Proxy voting**

None of the given options

**167. The payment of the dividend is at the discretion of the:**

Select correct option:

Chairman

**Board of directors**

Shareholders

Stakeholders

**168. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.**

Select correct option:

Profitability index

Payback period

**Internal rate of return**

Net present value

**169. If two investments are mutually exclusive, then taking one of them means that:**

Select correct option:

**We cannot take the other one**

The other is pending for the next period

The projects are independent

None of the given options

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

Select correct option:

-1

0

**1**

All of the given options

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

Select correct option:

**Book value**

Intrinsic value

Cost

Market value

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

Select correct option:

Erosion

Piracy

Cannibalism

**All of the given options**

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

Select correct option:

**Operating Cycle**

Cash Cycle

Receivable period

Inventory period

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

Select correct option:

Inventory period

Accounts receivable period

Accounts payable turnover

**None of the given option**

**175. Mr. Munir purchased goods of Rs.100,000 on June 01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.**

Select correct option:

100,000

**97,000**

103,000

50,000

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

Select correct option:

3.347 approximately

5.347 approximately

**2.347 approximately**



6.253 approximately

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

Select correct option:

- 234 days
- 223 days**
- 245 days
- 230 days

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

Select correct option:

- Bank loan
- Commercial papers
- Trade credit**
- None of the given options.

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

Select correct option:

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

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

Select correct option:

- Cash discount**
- Quantity discount
- Float discount
- All of the given options

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

Select correct option:

- The firm's disbursement float is less than its collection float.**
- The firm's collection float is equal to zero.
- The firm's collection float is less than its disbursement float.

None of the given options.

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

Select correct option:

An example of "moderate risk -- moderate (potential) profitability" asset financing.

An example of "low risk -- low (potential) profitability" asset financing.

**An example of "high risk -- high (potential) profitability" asset financing.**

An example of the "hedging approach" to financing

**183. Suppose Flatiron Corporation has a debt-to- equity ratio of 2/3. You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.**

Select correct option:

66.67%

33.34%

0%

**60%**

**184. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be**

Select correct option:

11.15%

16.13%

**15.80%**

13.14%

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

Select correct option:

They have a direct relationship

**They have an indirect relationship**

They have spontaneous relationship

None of the given options

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

Select correct option:

**Financial risk**

Portfolio risk

Operating risk

Market risk

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

Select correct option:

\$202,200,000

**\$247,500,000**

\$283,500,000

\$321,250,000

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

Select correct option:

13.5%

17.75%

**15.79%**

17.13%

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

Select correct option:

Source of cash

Use of cash

**Neither of the source of cash nor a use of cash**

None of the given option

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

Select correct option:

- 62 days
- 18 days
- 56 days**
- 19 days

**191. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be**

Select correct option:

- Rs.1,000,000
- Rs.1,200,000
- Rs800,000**
- Rs.1,400,000

**192. The use of Personal borrowing to alter the degree of financial leverage is called**

Select correct option:

**Homemade leverage**

- Financial leverage
- Operating leverage
- None of the given option

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

Select correct option:

- Sunk cost
- Opportunity cost**
- Financing cost
- All of the given options

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

Select correct option:

- 13.07 %
- 15.67 %
- 16.00 %
- 18.80 %**

195. \_\_\_\_\_ is the group of assets such as stocks and bonds held by an investor.

Select correct option:

**Portfolio**

Diversification

Stock Bundle

None of the given options

196. Which of the following measures the present value of an investment per dollar invested?

Select correct option:

Net Present Value (NPV)

**Profitability Index (PI)**

Average Accounting Return (AAR)

Internal Rate of Return (IRR)

197. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

Select correct option:

37.5 %

47.5 %

**62.5 %**

72.5 %

198. A risk that influences a large number of assets is known as:

Select correct option:

Systematic Risk

Market Risk

Non-diversifiable Risk

**All of the given options**

199. Which of the following risk can be eliminated by diversification?

Select correct option:

Systematic Risk

**Unsystematic Risk**

A&B

None of the given options

200. 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:**

Select correct option:

**2.6 Years**

3.1 Years

3.6 Years

4.1 Years

**201. A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:

Dividend Price Model

**Dividend Growth Model**

Dividend Policy Model

All of the given options

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

Select correct option:

Most widely used

**Ideal to rank the mutually exclusive investments**

Easily communicated and understood

Can be estimated even without knowing the discount rate

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

Select correct option:

Ordinary Annuity

**Perpetuity**

Dividend

Interest

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

Select correct option:

15.00 %

15.34 %

**15.87 %**

16.42 %

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

Select correct option:

loan; receiver  
dividend; issuer  
dividend, receiver

**loan; issuer**

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

Select correct option:

**More**

Less

Same

All of the given options.

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

Select correct option:

30 %

50 %

**70 %**

90 %

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

Select correct option:

Increase Profit Margin

Increase Total Assets Turnover

Sell new shares

**All of the given options.**

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

Select correct option:

**Present Value**

Future Value

Capital Gain

Net Profit

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

Select correct option:

Rs. 319.45

Rs. 390.75

**Rs. 419.45**

Rs. 463.75

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

Select correct option:

Time to maturity

Coupon rate

**A and B**

None of the given options

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

Select correct option:

**8%**

10 %

12 %

14 %

**213. In the formula  $k_e \geq (D1/P0) + g$ , what does  $(D1/P0)$  represent?**

Select correct option:

A. The expected capital gains yield from a common stock

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

C. The dividend yield from a preferred stock

D. The interest payment from a bond

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

Select correct option:

A. 100 Votes

B. 200 Votes

**C. 300 Votes**

D. 400 Votes

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

Select correct option:

A. Rs. 30

**B. Rs. 40**



- C. Rs. 50
- D. Rs. 60

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

Select correct option:

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

- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

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

Select correct option:

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

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

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

Select correct option:

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

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

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

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

**A. Rs. 29,454**

B. Rs. 34,325

C. Rs. 39,272

D. Rs. 49,023

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

Select correct option:

A. Compounding quarterly

**B. Compounding monthly**

C. Compounding semi-annually

D. Compounding annually

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

Select correct option:

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

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

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

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

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

Select correct option:

A. Rs. 1,556

**B. Rs. 1,712**

C. Rs. 2,082

D. Rs. 2,420

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

Select correct option:

**A. Convertible Bonds**

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

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

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

Select correct option:

**Time interest earned**

- Cash coverage ratio
- Profit margin ratio
- None of the given option

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

Select correct option:

- Return on short as well as long term investments
- Return on equity and return on debt
- Return on equity and profit margin**

All of the given options

**235. Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000. What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?**

Select correct option:

Increase

**Decrease**

Remain unchanged

None of the given option

**236. Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?**

Select correct option:

0.38 times

0.58 times

**0.78 times**

0.98 times

**237. What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?**

Select correct option:

Rs. 2.5 million

Rs. 3 million

Rs. 3.5 million

**Rs.4.5 million**

**238. Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.**

Select correct option:

9.414 %

10.414 %

11.412 %

**12.414 %**

**239. Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stakeholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?**

Select correct option:

Rs.150 millions

Rs.250 millions

**Rs.350 millions**

Rs.500 millions

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

Select correct option:

12.29%

**14.29%**

16.29%

18.92%

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

Select correct option:

**25 %**

35 %

29%

45%

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

Select correct option:

a. Rs.251.415 millions

b. Rs.261.415 millions

**c. Rs.271.415 millions**

d. Rs.281.415 millions

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

Select correct option:

Operating efficiency

Asset usage efficiency

Financial leverage

**All of the given options**

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

Select correct option:

Return on assets ratio

**Retention ratio**

Leverage ratio

Profit margin

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

Select correct option:

Efficient usage of current assets

Change in the nature of the firm

Change in Accounting method of the firm

**Change in the management of the firm**

**246. Present value factor is:**

Select correct option:

$(1+r)^t$

$(1-r)^t$

**$1/(1+r)^t$**

$1/(1+r)^{1/t}$

**247. Depreciation expense is:**

Select correct option:

**Operating expense**

Investing expense

Financing expense

All of the given options

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

Select correct option:

**The firm grows**

Sales of the firm grows

Profit of the firm grows

None of the given options

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

Select correct option:

Future amount  
Present value  
Interest rate

**All of the given options**

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

Select correct option:

**PV of 1 factor for 10%**

PV of 1 factor for 12%

Both have the same effect

It cannot be determined

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

Select correct option:

5.27 years

6.27 years

**7.27 years**

7.57 years

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

Select correct option:

**Rs. 116.64**

Rs. 111.64

Rs. 164.64

Rs. 164.61

**253. Investing activities include:**

Select correct option:

Purchase of property, plant and equipment

Cash received from the issuance of stock or equity in the business.

Purchases of stock or other securities (other than cash equivalents)

**Both a & c**

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

Select correct option:

**Capital is raised**

Assets increased

Liabilities decreased

Cash withdrawn



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

Select correct option:

**Cash from operations activities**

Cash from financing activities

Cash from investing activities

None of the given options

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

Select correct option:

marketable securities

Cash equivalents

Treasury bills

**All of the given options**



**257. The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.**

Select correct option:

**Actual cash income**

Un earned income

Coming year income

Last year's income

**258. Ratios look at the relationships between individual values and relate them to how a company:**

Select correct option:

Has performed in the past

Might perform in the future

**Both a & b**

None of the given options

**259. The current ratio is also known as:**

Select correct option:

**Working capital ratio**

Leverage ratio

Turnover ratio

None of the given options

**260. \_\_\_\_\_ is concerned with the relationship between the long terms liabilities that a business has and its capital employed.**

Select correct option:

**Gearing**

Acid test ratio

Working capital management

All of the given options

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

Select correct option:

- Management ratios
- Working capital ratios
- Net profit margin ratios

**Solvency Ratios**

262. Balance sheet items expressed as percentage of:

Select correct option:

- Net sales
- Total revenue
- Total assets**
- Total liabilities

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

Select correct option:

**Ann is the principal and Mary is the agent.**

- Mary is the principal and Ann is the agent.
- Ted is the agent and Ann is the principal.
- Mary is the principal and Ted is the agent.

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

Select correct option:

Trading in a given auction exchange takes place at a single site on the floor of the exchange.

Transaction prices of shares are communicated almost immediately to the public.

Listing.

**All of the given options (a, b and c).**

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

\$ 50,000	x 15%	= \$ 7,500
(\$ 75,000 – 50,000)	x 25%	= 6,250
(\$ 100,000 – 75,000)	x 34%	= 8,500
(\$ 200,000 – 100,000)	x 39%	= 39,000
		<b>\$ 61,250</b>

Total tax is \$61,250.

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

Select correct option:

**39%**

34%

15%

25%

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

Select correct option:

**Charter**

Set of bylaws

Regulations paper

None of the given options

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

Select correct option:

Cash outflow to the government for taxes.

Cash outflow to shareholders as dividends.

Cash outflow to lenders as interest.

**Cash outflow to purchase bonds issued by another company**

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

Select correct option:

**accounts receivable**

inventory

net fixed assets

intangible assets

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

Select correct option:

Limited liability.

**Easy transfer of ownership position.**

Double taxation.

All of the options are advantages that the corporation has over the limited partner.

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

Select correct option:

money

**capital**

primary

secondary

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

Select correct option:

Financial management

Profit maximization

**Agency theory**

Social responsibility

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

Select correct option:

**Depreciation**

Dividends

Interest payments

Taxes

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

Select correct option:

**a common-size statement**

an income statement

a cash flow statement

a balance sheet

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

Select correct option:

Profitability Ratios

**Liquidity ratios**

Debt ratios

Turnover ratios

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

Select correct option:

0  
0.2  
0.1

**At least one**

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

Select correct option:

**Times Interest Earned (TIE) Ratios**

Liquidity Ratios

Debt Ratios

Asset Management Ratios

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

Select correct option:

operating efficiency (as measured by profit margin)

asset use efficiency (as measured by total assets turnover)

financial Leverage (as measured by equity multiplier)

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

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

Select correct option:

**comparison**

identification

calculation

liability

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

Select correct option:

**an ordinary annuity**

annuity due

multiple cash flows

perpetuity

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

Select correct option:

**21.15%**

12%

18%  
30%

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

**\$9,806.56**  
\$9000  
\$10000  
\$9500

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

**Rs.100**  
Rs.10  
Rs.90  
Rs.1000

**283. \_\_\_\_\_ is considered as bottom line in Income Statement?**  
Select correct option:

Total Assets  
Total Liabilities  
**Net Profit**  
Gross Profit

**284. \_\_\_\_\_ can be considered as a snapshot of a company's financial position?**  
Select correct option:

Income Statement  
**Balance Sheet**  
Cash Flow Statement  
Owner's Equity Statement

**285. \_\_\_\_\_ involves the sale of used securities from one investor to another? Select correct option:**

Primary Market  
**Secondary Market**  
Tertiary Market  
None of the given options

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

Select correct option:

**Liquidity**

Financial Leverage

Profitability

Market Value

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

Select correct option:

Planning Process

Capital Structure

**Capital Budgeting**

Managing Process

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

Select correct option:

6.37 %

8.37 %

**15.7 %**

12.5 %

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

Select correct option:

8 times

**9 times**

10 times

11 times

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

Select correct option:

**Total Assets**

Total Liabilities

Total Capital

Net Profit



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

Select correct option:

Sole Proprietorship

Partnership

**Corporation**

None of the given options

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

Select correct option:

Inventory

Accounts Payable

Accounts Receivable

Depreciation

**293. Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

**294. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

Debt securities or bonds

Common Stocks

Preferred Stock

**All of the given options**

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

Select correct option:

Liquidity Ratios

Leverage Ratios

Profitability Ratios

Market Value Ratios

**296. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**297. Who of the following make a broader use of accounting information?**

Select correct option:

Accountants

**Financial Analysts**

Auditors

Marketers

**298. Which of the following process can be defined as the process of generating earnings from previous earnings?**

Select correct option:

Discounting

Compounding

Factorization

**None of the given options**

**299. Which of the following is (are) a non-cash item(s) ?**

Select correct option:

Revenue

Expenses

**Depreciation**

All of the given options

**300. Which of the following rate makes the Net Present Value (NPV) equal to zero?**

Select correct option:

Average Accounting Return (AAR)

**Internal Rate of Return (IRR)**

Required Rate of Return (RRR)

Weighted Average Cost of Capital (WACC)

**301. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

- Rs. 100
- Rs. 510
- Rs. 1,000
- Rs. 1,100**

**302. Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**

Select correct option:

**Payback Period**

- Net Present Value
- Average Accounting Return
- None of the given options

**303. Period costs include which of the following?**

Select correct option:

**Selling expense**

- Raw material
- Direct labor
- Manufacturing overhead

**304. The value of net working capital will be greater than zero when:**

Select correct option:

**Current Assets > Current Liabilities**

- Current Assets < Current Liabilities
- Current Assets = Current Liabilities
- None of the given options

**305. Which of the following relationships holds TRUE if a bond sells at a discount?**

Select correct option:

- Bond Price < Par Value and YTM > coupon rate
- Bond Price > Par Value and YTM > coupon rate
- Bond Price > Par Value and YTM < coupon rate
- Bond Price < Par Value and YTM < coupon rate

**306. Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**

Select correct option:

- Current Yield
- Yield To Maturity
- Coupon Yield

Capital Gains Yield

**307. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

**308. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.**

Select correct option:

**Positive**

Negative

zero

None of the given options

**309. Financial policy is evaluated by which of the following?**

Select correct option:

Profit Margin

Total Assets Turnover

**Debt-equity ratio**

None of the given options

**310. Head of Treasury department reports to whom?**

Select correct option:

Financial and cost Accountant

**Chief of financial officer**

Cash and credit manager

Board of directors

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

Select correct option:

**Agency problem**

Interest conflict

Management conflict

Agency cost

**312. According to Du Pont Identity, ROE is affected by which of the following?**

Select correct option:

Operating efficiency

Asset use efficiency

Financial Leverage

**All of the given options**

**313. During the accounting period, sales revenue is Rs. 25,000 and accounts receivable increases by Rs. 8,000. What will be the amount of cash received from customers for the period?**

Select correct option:

Rs. 33,000

Rs. 25,000

**Rs. 17,000**

Rs. 8,000

**314. Which of the following area of finance deals with stocks and bonds?**

Select correct option:

Financial institutions

International finance

**Investments**

All of the given options

**315. Which of the following is subcategory (ies) of finance department?**

Select correct option:

Accounting department only

Treasury department only

**Accounting department and Treasury department**

None of the given options

**316. A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?**

Select correct option:

Rs. 14,186

Rs. 18,256

**Rs. 22,697**

Rs. 28,253

**317. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?**

Select correct option:

**Rs. 100**

Rs. 510

Rs. 1,000

Rs. 1,100

**318. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

Select correct option:

3 percent

6 percent

9 percent

**12 percent**

**319. Which of the given is correct?**

Select correct option:

Financial asset is a document representing a claim to income

Real asset is a document representing a claim to income

Financial asset is an object that provides a service

**All of the given options**

**320. The price of a Rs. 1,000-face value bond is Rs. 910. What will be the yield to maturity if there is a coupon payment of Rs. 90 for 6 years?**

Select correct option:

**Greater than 9%**

Equal to 9%

Lower than 9%

Cannot be determined without more information

**321. Decisions about “how to raise money” and “what to do with it” are part of which of the following?**

Select correct option:

**Business Finance**

Change management

Costing for accounting

All of the given options

**322. Which of the following ratios are intended to address the firm’s financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

**323. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**324. Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

**Perpetuity**

**325. AST Company has a current ratio of 4:3. Current Liabilities reported by the company are Rs. 30,000. What would be the Net Working Capital for the company?**

Select correct option:

Rs. 40,000

(–Rs. 40,000)

**Rs. 10,000**

(–Rs. 10,000)

**326. Which of the following statements is(are) CORRECT regarding a bond?**

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body.

A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

**All of the given options**

**327. How many years will it take to pay off a Rs. 11,000 loan with a Rs. 1,241.08 annual payment and a 5% interest rate?**

Select correct option:

**6 years**

12 years

24 years

48 years

**328. Finance is the art and science of handling \_\_\_\_\_.**

Select correct option:

**Money**

People

Authority

None of the given options

**329. In corporate form of business, what is the objective of shareholder?**

Select correct option:

Maximize current year income

Delay in payment to supplier

Reduce the expenditure on inventory maintenance

**Maximization of shareholder wealth**

**330. Finance is vital for which of the following business activity (activities)?**

Select correct option:

Marketing Research

Product Pricing



Design of marketing and distribution channels

**All of the given options**

**331. When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

Debt securities or bonds

Common Stocks

Preferred Stock

**All of the given options**

**332. In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would:**

Select correct option:

Fall

Rise

**Remain same**

Cannot be determined with the given information

**333. In how many years, an amount will be doubled at a discount rate of 8 percent?**

Select correct option:

3 years

6 years

**9 years**

Cannot be determined without more information

**334. What will be the value of a Rs. 1,000 face-value bond with an 8% coupon rate at 8% required rate of return?**

Select correct option:

**More than its face value**

Less than its face value

Equal to its face value

Cannot be determined without more information

**335. In which type of market, used securities are traded?**

Select correct option:

Primary market

**Secondary market**

Tertiary market

None of the given options

**336. Which of the following form of business organization is least regulated?**

Select correct option:

**Sole-proprietorship**

General Partnership

Limited Partnership

Corporation

**337. Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

**Net worth**

Markup

Markdown

**338. Which of the following is measured by profit margin?**

Select correct option:

**Operating efficiency**

Asset use efficiency

Financial policy

Dividend policy

**339. A business owned by a single person is known as:**

Select correct option:

**Sole-proprietorship**

General partnership

Limited partnership

Corporation

**340. Net Income after taxation differs from Net Cash Flow from operations because:**

Select correct option:

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

**Non-cash items are included in the Income Statement, but not in the Cash Flow Statement**

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

**341. The most common application of term “Finance” involves raising money to acquire\_\_\_\_\_.**

Select correct option:

Current Asset

Fixed Asset

Intangible Asset

**All of the given options**

**342. Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**

Select correct option:

**Ordinary annuity**

Annuity due

Perpetuity

None of the given options

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

Select correct option:

CF from Assets = CF to Creditors – CF to Stockholder

CF from Assets = CF to Stockholders – CF to Creditors

CF to Stockholders = CF to Creditors + CF from Assets

**CF from Assets = CF to Creditors + CF to Stockholder**

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

**If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?**

Select correct option:

Rs. 30

**Rs. 40**

Rs. 50

Rs. 60

**345. Which of the following ratios are intended to address the firm's financial leverage?**

Select correct option:

Liquidity Ratios

**Long-term Solvency Ratios**

Asset Management Ratios

Profitability Ratios

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

Select correct option:

5.00 percent

7.00 percent

8.45 percent

**10.0 percent**

**347. The relationship between real and nominal returns is described by the:**

Select correct option:

M&M Proposition

Capital Asset Pricing Model

**Fisher's Effect**

BCG Matrix

**348. An investment should be accepted if the Net Present Value (NPV) is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.**

Select correct option:

Positive; positive

**Positive; negative**

Negative; negative

Negative; positive

**349. Which of the following form of business organization is least regulated?**

Select correct option:

### **Sole-proprietorship**

General Partnership  
Limited Partnership  
Corporation

**350. In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share?**

Select correct option:

### **Straight Voting**

Proportional Voting  
Cumulative Voting  
None of the given options

**351. Which of the following cash flow activities are reported in the Cash Flow Statement and Income Statement?**

Select correct option:

### **Operating Activities**

Investing Activities  
Financing Activities  
All of the given options

**352. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslam would have as per cumulative voting procedure?**

Select correct option:

100 votes  
200 votes  
300 votes  
**400 votes**

**353. A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**

Select correct option:

Semiannually  
Quarterly  
**Monthly**  
Daily

**354. Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

**Financial Leverage**

Manufacturing Leverage

None of the given options

**355. Between the two identical bonds having different coupon, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

**Long-term; short-term**

None of the given options

**356. Which of the following financial statement shows both dollars and percentages in the report?**

Select correct option:

Balance Sheet

**Common-Size Statement**

Income Statement

Relative Statement of Equity

**357. A \_\_\_\_\_ is an agent who arranges security transactions among investors.**

Select correct option:

**Broker**

Dealer

Member

Specialist

**358. If a firm uses cash to purchase inventory, its quick ratio will:**

Select correct option:

Increase

Decrease

**Remain unaffected**

Become zero

**359. In which type of the market, securities are originally sold to the investors?**

Select correct option:

**Primary Market**

Secondary Market

Tertiary Market

None of the given options

**360. Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

**All of the given options**

**361. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?**

Select correct option:

1.01

1.26

1.39

**1.52**

**362. How many Rs. 190 annual payments must be invested at 12% to accumulate Rs. 57,921?**

Select correct option:

14

28

32

**56 (doubt)**

**363. One would be indifferent between taking and not taking the investment when:**

Select correct option:

NPV is greater than Zero

**NPV is equal to Zero**

NPV is less than Zero

All of the given options

**Quiz No – 1**  
**ACC501 (Fall 2015)**

- Q1. Product costs include which of the following?
- (a) Selling Expenses
  - (b) General Expenses
  - (c) Manufacturing overhead
  - (d) Administrative expenses
- Q2. The most common application of term “Finance” involves raising money to acquire \_\_\_\_\_.
- (a) Current Assets
  - (b) Fixed Assets
  - (c) Intangible Assets
  - (d) All of the given options
- Q3. Which of the following is NOT a form of business organization?
- (a) Sole proprietorship
  - (b) Partnership
  - (c) Joint stock Company
  - (d) Cooperative Society
- Q4. Which of the following statement shows assets, liabilities and net worth as of a specific date?
- (a) Income Statement
  - (b) Balance Sheet
  - (c) Owner’s Equity Statement
  - (d) Cash Flow Statement
- Q5. Agency problem can be controlled by which of the way?



- (a) Monitor what the agent is doing
- (b) Employ auditors to review company books to make sure funds are used properly
- (c) Pay bonus share to manager as compensation plan
- (d) All of the given options

Q6. Balance sheet of a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level of Rs. 120,000?

- (a) 1.01 times
- (b) 1.26 times
- (c) 1.39 times
- (d) 1.52 times

**Quiz No – 2**  
**ACC501 (Fall 2015)**

Q1. AST Company's debt-to-total assets ratio is 0.45. What is its debt-to-equity ratio?

- (a) 0.101
- (b) 0.220
- (c) 0.667
- (d) 0.818

Q2. XYZ Company has a ROE of 12 percent and a dividend payout ratio 40 percent. What is the firm's maximum sustainable rate of growth?

- (a) 3.73%
- (b) 5.93%
- (c) 7.76%
- (d) 9.17%

Q3. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

- (a) Positive
- (b) **Negative**
- (c) Neutral

(d) None of the given options

Q4. Which of the following is an example of positive covenant?

- (a) Maintaining any collateral or security in good condition
- (b) Limiting the amount of dividend according to same formula
- (c) Restricting pledging assets to other lenders
- (d) Barring merger with another firm

Q5. Double taxation of earning is the major disadvantage of which of the following form of business?

- (a) Corporate form
- (b) Partnership
- (c) Sole proprietorship
- (d) None of the given options

Q6. Between the two identical bonds having different maturity periods, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.

- (a) Long-term, short-term
- (b) Short-term, long-term
- (c) Lower-coupon, Higher-coupon
- (d) None of the given options

Q7. Which of the given is treated as financial asset?

- (a) Corporate bond
- (b) Machinery
- (c) Inventory
- (d) Factory building

Q8. Which of the following form of business organization is least regulated?

- (a) Sole-proprietorship
- (b) General Partnership
- (c) Limited Partnership
- (d) Corporation

Q9. Period costs include which of the following?

- (a) Selling expense
- (b) Raw material
- (c) Direct labor
- (d) Manufacturing overhead

Q10. Anwar wants to invest some money so that he will have Rs. 50,000 for his child's school education 15 years from now. He can earn 8 percent compounded annually. How much does he need to invest today?

- (a) **Rs. 15,762**
- (b) Rs. 17,271
- (c) Rs. 18,980
- (d) Rs. 20,404

Q11. Which of the following is an example of capital spending?

- (a) **Purchase of fixed assets**
- (b) Decrease in Net Working Capital
- (c) Increase in Net Working Capital
- (d) None of the given options

Q12. Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

- (a) Repayment
- (b) Seniority
- (c) **Call provision**
- (d) Protective covenants

Q13. Quick ratio is also known as:

- (a) Current Ratio
- (b) **Acid-test Ratio**
- (c) Cash Ratio
- (d) None of the given options

Q14. Which of the following is NOT an external use of financial statements information?

- (a) Evaluation of credit standing of new customer
- (b) Evaluation of financial worth of supplier
- (c) Evaluation of potential strength of the competitor
- (d) Evaluation of performance through profit margin and return on Equity

Q15. Which of the following refers to the difference between the sale price and cost of inventory?

- (a) Net loss
- (b) Net worth
- (c) Markup
- (d) Markdown

Q16. Which of the following is (are) the characteristic(s) of sole proprietor business?

- (a) Easy to start
- (b) Business income is considered as personal income
- (c) Limited sources
- (d) **All of the given options**

Q17. Which of the following statement is CORRECT regarding compound interest?

- (a) It is the most basic form of calculating interest
- (b) It earns profit not only on principal but also on interest
- (c) It is calculated by multiplying principal by rate multiplied by time
- (d) It does not take into account the accumulated interest for calculation

Q18. If you plan to save Rs. 5,000 with a bank at an interest rate of 8%, what will be the worth of your amount after 4 years if bank offers simple interest?

- (a) Rs. 5,400
- (b) Rs. 5,900
- (c) Rs. 6,600
- (d) **Rs. 6,802**

Q19. A company having a current ratio of 1 will have \_\_\_\_\_ net working capital.

- (a) Positive
- (b) Negative

- (c) Zero
- (d) None of the given options

Q20. Which of the following term refers to establish of a standard to follow for comparison?

- (a) **Benchmarking**
- (b) Standardizing
- (c) Comparison
- (d) Evaluation

**Quiz No – 3**  
**ACC501 (Fall 2014)**

Q1. What will be the real rate if the nominal rate is 14% and the inflation rate is 6%?

- (a) 6.02%
- (b) 7.55%
- (c) 10.0%
- (d) 14.3%

Q2. IRR and NPV rules always lead to identical decisions as long as:

- (a) Cash flows are conventional
- (b) Cash flows are independent
- (c) Cash flows are both conventional and independent
- (d) None of the given options

Q3. Which one of the following typically applies to preferred stock but not to common stock?

- (a) Dividend yield
- (b) Cumulative dividends
- (c) Voting rights
- (d) Tax deductible dividends

Q4. A borrower is able to Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount of money the lender should lend?

- (a) Rs. 14,186

- (b) Rs. 18,296
- (c) Rs. 22,697
- (d) Rs. 28,253

Q5. What amount a borrower would pay at the end of fourth year with a 4 year, 12% interest only loan of Rs. 8,000?

- (a) Rs. 1,360
- (b) Rs. 2,000
- (c) Rs. 5,625
- (d) Rs. 8,960

Q6. Which of the following is not a shortcoming of Payback Rule?

- (a) Time value of money is ignored
- (b) It fails to consider risk differences
- (c) Simple and easy to calculate
- (d) None of the given options

Q7. Sumi Inc. has just paid a dividend of Rs. 7 per share. The dividend of this company grows at a steady rate of 5% per year. What will be the dividend in 5 years?

- (a) Rs. 4.41
- (b) Rs. 6.12
- (c) Rs. 7.35
- (d) Rs. 8.93

Q8. A model which makes an assumption about the future growth of dividends is known as?

- (a) Dividend Price Model
- (b) Dividend Growth Model
- (c) Dividend Policy Model
- (d) All of the given options

Q9. In which type of the market, previously issues securities are traded among investors?

- (a) Primary Market
- (b) Secondary Market
- (c) Tertiary Market

(d) None of the given options

Q10. Which of the following is a special case of annuity, where the stream of cash flows continues forever?

- (a) Ordinary Annuity
- (b) Special Annuity
- (c) Annuity Due
- (d) Perpetuity

Q11. Rule of 72 for finding the number of periods is fairly applicable to which of the following range of discount rates?

- (a) 2% to 8%
- (b) 4% to 25%
- (c) 5% to 20%
- (d) 10% to 50%

Q12. 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

- (a) I and II
- (b) I and III
- (c) II and IV
- (d) I, III and IV

Q13. When real rate is \_\_\_\_\_, all interest rates will tend to be \_\_\_\_\_.

- (a) Low; higher
- (b) High; lower
- (c) High; higher
- (d) None of the given options

Q14. Treasury notes and bonds are examples of which of the following types of bonds?

- (a) Government bonds
- (b) Zero coupon bonds
- (c) Floating-rate bonds

(d) Euro bonds

Q15. What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?

(a) **Rs. 6,302**

(b) Rs. 9,981

(c) Rs. 14,600

(d) Rs. 15,869

Q16. A \_\_\_\_\_ covenant limits or prohibits actions that company might take.

(a) Positive

(b) **Negative**

(c) Neutral

(d) None of the given options

Q17. What will be the value of Rs. 1,000 face-value bond with an 8% coupon rate at \*% required rate of return?

(a) More than its face value

(b) Less than its face value

(c) Equal to its face value

(d) Cannot be determined without more information

Q18. Which of the following is CORRECT regarding the present value discount factor?

(a) It is greater than 1.0

(b) **It is equal to zero when discount rate is zero**

(c) It increases as the time period increases

(d) It decreases as the discount rate decreases

Q19. Which of the following is the most common capital budgeting technique?

(a) Payback Period

(b) Net Present Value

(c) Internal Rate of Return

(d) Profitability Index



Q20. Between the two identical bonds having different coupon, the price of the \_\_\_\_ bond will change less than that of \_\_\_\_ bond.

- (a) Higher-coupon, lower-coupon
- (b) Lower-coupon, Higher-coupon
- (c) Long-term, short-term
- (d) None of the given options

**Quiz No – 4**  
**ACC501 (Fall 2014)**

Q1. One would be indifferent between taking and not taking the investment when

- (a) NPV is greater than zero
- (b) NPV is equal to zero**
- (c) NPV is less than zero
- (d) All of the given options

Q2. Treasury notes and bonds are examples of which of the following types of bonds

- (a) Government bonds
- (b) Zero coupon bonds
- (c) Floating-rate bonds
- (d) Euro bonds

Q3. Expectation of a \_\_\_\_\_ inflation rate will push long term interest rates \_\_\_\_\_ than short term rates reflected by an upward term structure

- (a) Lower, higher
- (b) Higher, lower
- (c) Higher, higher
- (d) None of the given options

Q4. JJ Inc. has a 4 percent return on total assets of Rs 500,000 and a net profit margin of 5 percent. Total sales by JJ Inc. would be

- (a) Rs 150,000
- (b) Rs 200,000
- (c) Rs 250,000
- (d) Rs 400,000

Q5. If the book value exceeds the market value, then the difference is treated as a \_\_\_\_\_ for tax purpose

- (a) Profit
- (b) Loss**
- (c) Surplus
- (d) None of the given options

Q6. Which of the following is NOT a determinant of term structure?

- (a) Real rate of interest
- (b) Internal rate of interest
- (c) Expected inflation
- (d) Interest rate risk

Q7. Suppose the initial investment for a project is Rs 16 million and the cash flows are Rs 4 million in the first year and Rs 9 million in the second and Rs 5 million in the third. The project will have a payback period of

- (a) 2.6 years
- (b) 3.1 years
- (c) 3.7 years
- (d) 4.1 years

Q8. What will be the affect of capital structure on the value of the firm and WACC when there are no taxes and bankruptcy costs

- (a) Value of the firm increases and WACC decreases
- (b) Value of the firm decreases and WACC increases
- (c) Value of the firm and WACC both are not affected
- (d) Capital structure has to do nothing with value of the firm and WACC

Q9. Which of the following term refers to the use of debt financing?

- (a) Operating Leverage
- (b) Financial Leverage
- (c) Manufacturing Leverage
- (d) None of the given options

Q10. Business finance deals with which of the following functions?

- (a) How to raise money only?
- (b) What to do with money only?
- (c) How to prepare portfolio?
- (d) How to raise money and what to do with it?

Q11. SNT Corporation has policy of paying Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15% required rate of return?

- (a) Rs 30
- (b) Rs 40
- (c) Rs 50
- (d) Rs 60

Q12. The most common application of term "Finance" involves raising money to acquire \_\_\_\_\_.

- (a) Current Assets
- (b) Fixed Assets
- (c) Intangible Assets
- (d) All of the given options

Q13. Which of the following statements is INCORRECT regarding Bond Price theorems?

- (a) Bond prices and market interest rates move in the opposite directions
- (b) When a bond's coupon rate is greater than the market's required return, the bond's market value will be greater than its par value
- (c) When the market's required return of a bond is greater than the coupon rate, the bond's market value will be greater than the par value
- (d) When the market's required return of a bond is less than the coupon rate, the bond's market value will be greater than the par value

Q14. Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration?

- (a) Sunk
- (b) Opportunity

- (c) Fixed
- (d) Variable

Q15. Which of the following statement is INCORRECT regarding MACRS depreciation?

- (a) Every asset is assigned to a particular class which establishes asset's life for tax purpose
- (b) Depreciation is computed for each year by multiplying the cost of the asset by a fixed percentage
- (c) Annual depreciation remain constant every year even by using different rates
- (d) The expected salvage value and the actual expected economic life are not explicitly considered in calculation of depreciation

Q16. Which of the following form of business organizations is created as a distinct legal entity owned by one or more individuals or entities?

- (a) Sole-proprietorship
- (b) General Partnership
- (c) Limited Partnership
- (d) Corporation

Q17. In which of the following form of business "All business income is not considered as personal income"?

- (a) Corporate form
- (b) Partnership
- (c) Sole proprietorship
- (d) None of the given options

Q18. Which of the following costs 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?

- (a) Sunk
- (b) Opportunity
- (c) Fixed
- (d) Variable

Q19. Time value of money is an important finance concept because:

- (a) It takes risk into account

- (b) It takes time into account
- (c) It takes compound interest into account
- (d) All of the given options

### Quiz # 1 Nov 11 to 13, 2015

**In which form of business organizations, owners have limited liability?**

None of the above

**Which of the following is an example of capital spending?**

- \*Purchase of Fixed Assets
- Decrease in Net Working Capital
- Increase in Net Working Capital
- None of the given options

**Which of the following statement measures performance over a specific period of time?**

- \*Income Statement
- Balance Sheet
- Cash Flow Statement
- Retained Earnings Statement

**Which one of the following is NOT a liquidity ratio?**

- Current Ratio
- Quick Ratio
- \*Cash Coverage Ratio
- Cash Ratio

**Which of the following form of business organization is least regulated?**

- \*Sole-proprietorship
- General Partnership
- Limited Partnership

Corporation

**The value of net working capital will be greater than zero when:**

\*Current Assets > Current Liabilities

Current Assets < Current Liabilities

Current Assets = Current Liabilities

None of the given options

**Which of the following is disadvantage of sole proprietor business?**

Easy to start

Business income is considered as personal income

\*Limited sources

None of the given options

**A business owned by a single person is known as:**

\*Sole-proprietorship

General partnership

Limited partnership

Corporation

**Net Income after taxation differs from Net Cash Flow from operations because:**

Depreciation expense is shown in the Cash Flow Statement and not in the Income Statement

\*Non-cash items are included in the Income Statement, but not in the Cash Flow Statement

Cash sales are shown in the Cash Flow Statement but not in the Income Statement

Cash expenses are shown in the Cash Flow Statement but not in the Income Statement

**In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Sole-proprietorship

\*General Partnership

Limited Partnership

Corporation

## Quiz No. 2, Dec 09 to Dec 11, 2015

**If you plan to save Rs. 5,000 with a bank at an interest rate of 8%, what will be the worth of your amount after 4 years if bank offers simple interest?**

- Rs. 5,400
- Rs. 5,900
- \*Rs. 6,600
- Rs. 6,802

**In which type of market, new securities are traded?**

- Primary market
- \*Secondary market
- Tertiary market
- None of the given options

**You own a bond that promises to pay the holder Rs. 150 annually forever. You plan to sell the bond three years from now. If similar investments yield 8 percent at that time, how much will the bond be worth?**

- \*Rs. 1,333.34
- Rs. 1,666.00
- Rs. 1,875.00
- Rs. 1,958.20

**In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

- Sole-proprietorship
- \*General Partnership
- Limited Partnership
- Corporation

**Product costs include which of the following?**

- Selling expenses

General expenses

\*Manufacturing overhead

Administrative expenses

**Between the two identical bonds having different maturity periods, the price of the \_\_\_\_\_ bond will change less than that of \_\_\_\_\_ bond.**

\*long-term; short-term

short-term; long-term

lower-coupon; higher-coupon

None of the options

**In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would:**

Fall

Rise

\*Remain same

Cannot be determined with the given information

**Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**

\*Operating activity

Investing activity

Financing activity

None of the given options

**Which of the following is measured by retention ratio?**

Operating efficiency

Asset use efficiency

Financial policy

\*Dividend policy

**Which of the following item provides the important function of shielding part of income from taxes?**

Inventory



Supplies  
Machinery  
\*Depreciation

**Which of the given is (are) major difference(s) between net income and cash flow of the company?**

Accounts receivable only  
Depreciation only  
Accounts payable only  
\*All of the given options

**What is the effective annual rate of 7 percent compounded monthly?**

7.00 percent  
\*7.12 percent  
7.19 percent  
7.23 percent

**Which of the following is a cash flow from financing activity?**

Cash outflow to the government for taxes  
\*Cash outflow to shareholders as dividends  
Cash outflow to lenders as interest  
Cash outflow to purchase bonds issued by another company

**During the accounting period, sales revenue is Rs. 25,000 and accounts receivable increases by Rs. 8,000. What will be the amount of cash received from customers for the period?**

Rs. 33,000  
Rs. 25,000  
\*Rs. 17,000  
Rs. 8,000

**Which of the following statement about bond ratings is TRUE?**

Bond ratings are typically paid for by a company's bondholders.  
Bond ratings are based solely on information acquired from sources other than the bond issuer.  
\*Bond ratings represent an independent assessment of the credit-worthiness of bonds.

None of the given options

**A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6 months?**

- 3 percent
- 6 percent
- 9 percent
- \*12 percent

**Which one of the following is NOT a liquidity ratio?**

- Current Ratio
- Quick Ratio
- \*Cash Coverage Ratio
- Cash Ratio

**If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000. What is the profit margin?**

- 4.30%
- \*6.00%
- 10.70%
- 16.73%

**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

**Which of the following statement is CORRECT regarding compound interest?**

- It is the most basic form of calculating interest.
- It earns profit not only on principal but also on interest.
- \*It is calculated by multiplying principal by rate multiplied by time.
- It does not take into account the accumulated interest for calculation.