

ACC501 Finalterm Solved mcq's

1. _____ give a picture of a company's ability to generate cash flow and pay it financial obligations:

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

2. Balance sheet items expressed as percentage of:

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

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

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

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

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

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

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

Total tax is \$61,250.

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

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

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

- a. Charter

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

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

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

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

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

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

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

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

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

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

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

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

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

- 1. 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

2. 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

3. 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.

- A. Sunk cost
- B. Opportunity cost**
- C. Financing cost
- D. 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?

- A. 13.07 %
- B. 15.67 %
- C. 16.00 %
- D. 18.80 %**

3. _____ is the group of assets such as stocks and bonds held by an investor.

- A. **Portfolio**
- B. Diversification
- C. Stock Bundle
- D. None of the given options

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

- A. Net Present Value (NPV)
- B. **Profitability Index (PI)**
- C. Average Accounting Return (AAR)
- D. 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:

- A. 37.5 %
- B. 47.5 %
- C. **62.5 %**
- D. 72.5 %

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

- A. Systematic Risk
- B. Market Risk
- C. Non-diversifiable Risk
- D. **All of the given options**

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

- A. Systematic Risk
- B. **Unsystematic Risk**
- C. A & B
- D. 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:

- A. **2.6 Years**
- B. 3.1 Years
- C. 3.6 Years
- D. 4.1 Years

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

- A. Dividend Price Model
- E. **Dividend Growth Model**
- B. Dividend Policy Model

C. All of the given options

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

A. Most widely used

F. Ideal to rank the mutually exclusive investments

B. Easily communicated and understood

C. Can be estimated even without knowing the discount rate

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

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

E. Ordinary Annuity

F. Perpetuity

G. Dividend

H. Interest

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

E. 15.00 %

F. 15.34 %

G. 15.87 %

H. 16.42 %

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

E. loan; receiver

F. dividend; issuer

G. dividend, receiver

H. loan; issuer

4. When the interest rates fall, the bond is worth _____.

E. More

F. Less

G. Same

H. 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?

E. 30 %

F. 50 %

<p>G. 70 %</p> <p>H. 90 %</p>
<p>6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:</p> <p>E. Increase Profit Margin</p> <p>F. Increase Total Assets Turnover</p> <p>G. Sell new shares</p> <p>H. All of the given options.</p>
<p>7. _____ is the current value of the future cash flow discounted at an appropriate discount rate.</p> <p>E. Present Value</p> <p>F. Future Value</p> <p>G. Capital Gain</p> <p>H. Net Profit</p>
<p>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?</p> <p>G. Rs. 319.45</p> <p>H. Rs. 390.75</p> <p>I. Rs. 419.45</p> <p>J. Rs. 463.75</p>
<p>9. The sensitivity of Interest Rate Risk of a bond directly depends upon:</p> <p>D. Time to maturity</p> <p>E. Coupon rate</p> <p>F. A and B</p> <p>G. None of the given options</p>
<p>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?</p> <p>D. 8 %</p> <p>E. 10 %</p> <p>F. 12 %</p> <p>G. 14 %</p>

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

<p>1. _____ is considered as bottom line in Income Statement?</p> <ul style="list-style-type: none"> I. Total Assets J. Total Liabilities K. Net Profit L. Gross Profit
<p>2. _____ can be considered as a snapshot of a company's financial position?</p> <ul style="list-style-type: none"> I. Income Statement J. Balance Sheet K. Cash Flow Statement L. Owner's Equity Statement
<p>3. _____ involves the sale of used securities from one investor to</p>

another?
I. Primary Market J. Secondary Market K. Tertiary Market L. None of the given options
4. _____ Ratios shows a firm's ability to pay its bills in short term?
I. Liquidity J. Financial Leverage K. Profitability L. Market Value
5. The process of planning and managing a firm's long-term investments is called:
I. Planning Process J. Capital Structure K. Capital Budgeting L. 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:
I. 6.37 % J. 8.37 % K. 15.7 % L. 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:
I. 8 times J. 9 times K. 10 times L. 11 times
8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :
K. Total Assets L. Total Liabilities M. Total Capital N. Net Profit
9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:

H. Sole Proprietorship

I. Partnership

J. **Corporation**

K. None of the given options

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

H. Inventory

I. Accounts Payable

J. Accounts Receivable

K. **Depreciation**

