

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?
- Rs. 2.5 million
 - Rs. 3 million
 - Rs. 3.5 million
 - 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 _____.
- 9.414 %
 - 10.414 %
 - 11.412 %
 - 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?
- Rs.150 millions
 - Rs.250 millions
 - Rs.350 millions**
 - 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?
- 12.29%
 - 14.29%**
 - 16.29%
 - 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

(Total marks: 10)

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

Fall Semester 2006

- 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

QUIZ # 3 (Solution) FALL SEMESTER 2006 ACC501 – BUSINESS FINANCE	Total Marks 10
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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

<p>C. Total Risk</p> <p>D. Portfolio Risk</p>
<p>MCQ # 08 – 10 are based on the following data:</p>
<p>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).</p>
<p>8. According to the given data, the Capital Gain will be:</p>
<p>A. 10,500</p> <p>B. 7,500</p> <p>C. 10,000</p> <p>D. 7,000</p>
<p>9. According to the given data, the Dividend yield will be:</p>
<p>A. 8.50 %</p> <p>B. 6.25%</p> <p>C. 8.00%</p> <p>D. 6.67%</p>
<p>10. According to the given data, Total Percentage Returns will be:</p>
<p>A. 20%</p> <p>B. 28%</p> <p>C. 32%</p> <p>D. 35%</p>

Total marks: 10

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 toady 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. *7.2 7 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

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

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

QUIZ # 01 SPRING SEMESTER 2007 ACC501 – BUSINESS FINANCE	Total Marks 10
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SOLUTION

<i>Most Appropriate Answer among the given choices has been chosen.</i>	
1. _____ is considered as bottom line in Income Statement?	
	<ul style="list-style-type: none"> E. Total Assets F. Total Liabilities G. Net Profit H. Gross Profit
2. _____ can be considered as a snapshot of a company's financial position?	
	<ul style="list-style-type: none"> E. Income Statement F. Balance Sheet G. Cash Flow Statement

H. Owner's Equity Statement
3. _____ involves the sale of used securities from one investor to another?
E. Primary Market F. Secondary Market G. Tertiary Market H. None of the given options
4. _____ Ratios shows a firm's ability to pay its bills in short term?
E. Liquidity F. Financial Leverage G. Profitability H. Market Value
5. The process of planning and managing a firm's long-term investments is called:
E. Planning Process F. Capital Structure G. Capital Budgeting H. 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:
E. 6.37 % F. 8.37 % G. 15.7 % H. 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:
E. 8 times F. 9 times G. 10 times H. 11 times
8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :
E. Total Assets

<p>F. Total Liabilities</p> <p>G. Total Capital</p> <p>H. Net Profit</p>
<p>9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:</p>
<p>E. Sole Proprietorship</p> <p>F. Partnership</p> <p>G. Corporation</p> <p>H. None of the given options</p>
<p>10. Which one of these is considered as a non-cash item?</p>
<p>E. Inventory</p> <p>F. Accounts Payable</p> <p>G. Accounts Receivable</p> <p>H. Depreciation</p>

<p>QUIZ # 02 (Solution)</p> <p>SPRING SEMESTER 2007</p> <p>ACC501 – BUSINESS FINANCE</p>	<p>Total Marks 10</p>
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Instructions:

- Due Date and Time to submit the Quiz is . . .
Friday, Apr. 20, 2007 - - - Before 12'O Clock Midnight
- Quiz includes **Lecture # 11 to Lecture # 18** of your course.
- You can choose the right option by **Highlighting**, **Making Bold** or **Changing Color**.
- Cheating will harm you only & not to anyone else as copied quiz gets no credit.
- Quiz will not be acceptable in any way after the mentioned Date and Time.

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.

<p>I. Ordinary Annuity</p> <p>J. Perpetuity</p> <p>K. Dividend</p> <p>L. Interest</p>
<p>2. If a bank offers 15% annual rate of return compounded quarterly, what would be the Effective Annual Rate (EAR)?</p>
<p>I. 15.00 %</p> <p>J. 15.34 %</p> <p>K. 15.87 %</p> <p>L. 16.42 %</p>
<p>3. A bond represents a _____ made by an investor to the _____.</p>
<p>I. loan; receiver</p> <p>J. dividend; issuer</p> <p>K. dividend, receiver</p> <p>L. loan; issuer</p>
<p>4. When the interest rates fall, the bond is worth _____.</p>
<p>I. More</p> <p>J. Less</p> <p>K. Same</p> <p>L. All of the given options.</p>
<p>5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?</p>
<p>I. 30 %</p> <p>J. 50 %</p> <p>K. 70 %</p> <p>L. 90 %</p>
<p>6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:</p>
<p>I. Increase Profit Margin</p> <p>J. Increase Total Assets Turnover</p> <p>K. Sell new shares</p> <p>L. 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>I. Present Value</p> <p>J. Future Value</p> <p>K. Capital Gain</p> <p>L. 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>I. Rs. 319.45</p> <p>J. Rs. 390.75</p> <p>K. Rs. 419.45</p> <p>L. Rs. 463.75</p>
<p>9. The sensitivity of Interest Rate Risk of a bond directly depends upon:</p> <p>I. Time to maturity</p> <p>J. Coupon rate</p> <p>K. A and B</p> <p>L. 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>I. 8 %</p> <p>J. 10 %</p> <p>K. 12 %</p> <p>L. 14 %</p>

<p>QUIZ # 03 (SOLUTION)</p> <p>SPRING SEMESTER 2007</p> <p>ACC501 – BUSINESS FINANCE</p>	<p>Total Marks 10</p>
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Instructions:

- Due Date and Time to submit the Quiz is . . .
Wednesday, June 13, 2007 - - - Before 12'O Clock Midnight
- Quiz includes **Lecture # 23 to Lecture # 35** of your course.
- You can choose the right option by Highlighting, **Making Bold** or Changing Color.
- Cheating will harm you only & not to anyone else as copied quiz gets no credit.

- Quiz will not be acceptable in any way after the mentioned Date and Time.

<i>Choose the Most Appropriate Answer among the given choices.</i>
1. _____ refers to the most valuable alternative that is given up if a particular investment is undertaken.
M. Sunk cost N. Opportunity cost O. Financing cost P. 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?
M. 13.07 % N. 15.67 % O. 16.00 % P. 18.80 %
3. _____ is the group of assets such as stocks and bonds held by an investor.
M. Portfolio N. Diversification O. Stock Bundle P. None of the given options
4. Which of the following measures the present value of an investment per dollar invested?
M. Net Present Value (NPV) N. Profitability Index (PI) O. Average Accounting Return (AAR) P. 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:
M. 37.5 % N. 47.5 % O. 62.5 % P. 72.5 %
6. A risk that influences a large number of assets is known as:
M. Systematic Risk

<p>N. Market Risk</p> <p>O. Non-diversifiable Risk</p> <p>P. All of the given options</p>
<p>7. Which of the following risk can be eliminated by diversification?</p> <p>M. Systematic Risk</p> <p>N. Unsystematic Risk</p> <p>O. A & B</p> <p>P. None of the given options</p>
<p>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:</p> <p>M. 2.6 Years</p> <p>N. 3.1 Years</p> <p>O. 3.6 Years</p> <p>P. 4.1 Years</p>
<p>9. A model which makes an assumption about the future growth of dividends is known as:</p> <p>M. Dividend Price Model</p> <p>Q. Dividend Growth Model</p> <p>N. Dividend Policy Model</p> <p>O. All of the given options</p>
<p>10. Which of the following is not a quality of IRR ?</p> <p>M. Most widely used</p> <p>R. Ideal to rank the mutually exclusive investments</p> <p>N. Easily communicated and understood</p> <p>O. Can be estimated even without knowing the discount rate</p>