**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 tem “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