

Paper No. 1

MIDTERM EXAMINATION

Spring 2010

FIN622- Corporate Finance (Session - 6)

Solved By Hafiz Salman Majeed

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

Which of the following is a tool that identifies the strengths, weaknesses, opportunities and threats of an organization?

- ▶ **SWOT Analysis**
- ▶ Trend Analysis
- ▶ Fundamental Analysis
- ▶ Technical Analysis

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

Which of the following statements is TRUE regarding Profitability Index?

- ▶ It ignores time value of money
- ▶ It ignores future cash flows
- ▶ **It ignores the scale of investment**
- ▶ It ignores return on investment

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

Which of the following statements applies to intrinsic value of a security?

- ▶ **Intrinsic value of a security always exceeds its book value.**
- ▶ Intrinsic value of a security rises when the liquidation value falls.
- ▶ Intrinsic value of a security is the price around which its market value should closely fluctuate.
- ▶ Intrinsic value of a security is its closing market value when it is actively traded.

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

A Company's common stock is currently selling at Rs.3.00 per share, its quarterly dividend is Rs.0.07, and the stock is expected to rise to Rs.3.30 in a year. What is its expected rate of return?

- ▶ 9.3%
- ▶ **19.3%**
- ▶ 10.0%
- ▶ 11.0%

Expected Returns:

Total Return = Dividends + Capital Gains

= $D_1 + (P_1 - P_0) / P_0$

Note: Solve these papers by yourself

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$$\begin{aligned} &= 0.07 * 4 + (3.30 - 3) / 3 \\ &= 0.28 + 0.3 / 3 \\ &= 0.58/3 \\ &= 0.193 * 100 \\ &= 19.3\% \end{aligned}$$

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

For a firm with a Degree of Operating Leverage of 3.5, an increase in sales of 6% will:

- ▶ Increase pre-tax profits by 3.5%
- ▶ Decrease pre-tax profits by 3.5%.
- ▶ **Increase pre-tax profits by 21.0%.**
- ▶ Increase pre-tax profits by 1.71%.

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

Which of the following best illustrates the problem imposed by capital rationing?

- ▶ Accepting projects with the highest NPVs first
- ▶ Accepting projects with the highest IRRs first
- ▶ **By passing projects that have positive NPVs**
- ▶ Bypassing projects that have positive IRRs

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

A project would be financially feasible in which of the following situations?

- ▶ If Internal Rate of Return of a project is greater than zero
- ▶ If Net Present Value of a project is less than zero
- ▶ If the project has Profitability Index less than one
- ▶ **If the project has Profitability Index greater than one**

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

Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on this stock?

- ▶ 2%
- ▶ 3%
- ▶ 4%
- ▶ **5%**

Reference:

Dividend yield = Annual dividends per share / price per share

$$\begin{aligned} &= 2 / 35 \\ &= 0.057 \\ &= 5\% \end{aligned}$$

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

Which of the following is considered as a risk free financial asset?

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▶ **Government T-bills**

- ▶ Junk bonds
- ▶ Preferred stock
- ▶ Secured bonds

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

Which of the following is a necessary condition for issuing shares through Initial Public Offerings (IPO's)?

- ▶ The firm must have a stable dividend policy
- ▶ The firm must have a low cost of capital
- ▶ The firm must have a low level of debt
- ▶ **The firm must be listed on the stock exchange**

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

Which one of the following statements applies to Dividend Growth Model?

- ▶ It is difficult to understand and use
- ▶ It is used for non-listed companies
- ▶ It is used for debt securities also
- ▶ **It do not consider risk level of a security**

Question No: 12 (Marks: 1) - Please choose one

Which of the following *best* define the term 'Capital Structure'?

- ▶ The proportion of equity used by a firm
- ▶ **The proportion of debt and equity capital used by a firm**
- ▶ The proportion of long-term liabilities used by a firm
- ▶ The proportion of short-term bank loan used by a firm

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

A Pure Play method of selecting a discount rate is most suitable in which of the following situations?

- ▶ When the intended investment project has a Non-conventional stream of cash flows
- ▶ When the intended investment project is a replacement project
- ▶ **When the intended investment project belongs to industry other than the firms operating in**
- ▶ When the intended investment project has a conventional stream of cash flows

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

Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?

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▶ **Stock Dividend**

- ▶ Cum Dividend
- ▶ Ex Dividend
- ▶ Extra Dividend

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

▶ **Value of a firm is independent of its capital structure**

- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital
- ▶ Value of a firm is independent on its level of equity finances

Reference:

According to MM Proposition I, with perfect capital markets the value of a firm is independent of its capital structure.

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

Which of the following transactions would occur in a primary financial market?

▶ **Initial public offering**

- ▶ Buying mutual funds certificates
- ▶ Selling old shares
- ▶ Buying bonds issued in previous year

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
- ▶ **It has no effect on the break-even level.**
- ▶ This cannot be determined without knowing the length of the investment horizon.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter10/chapter_quiz.html

Question#10

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

Which of the following statements is TRUE regarding Balance Sheet of a firm?

- ▶ It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
- ▶ It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.

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▶ **It shows the firm's financial position at a specific point in time.**

▶ It summarizes the firm's revenues and expenses over an accounting period.

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

All of the following are the disadvantages of a Corporate form of an organization EXCEPT:

- ▶ Double taxation
- ▶ **Limited liability**
- ▶ **Legal restrictions**
- ▶ None of the given options

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

Which of the following would be a consequence of a high Inventory Turnover Ratio?

- ▶ **Low level of inventory and frequent stock-outs**
- ▶ Seasonal elements peculiar to the business
- ▶ Efficient inventory management
- ▶ Any of the given option

Reference:

http://books.google.com.pk/books?id=fWG2_eTKbM4C&pg=PA40&lpg=PA40&dq=%20high+Inventory+Turnover%22+consequence&source=bl&ots=cgQ5LgPQzT&sig=fjcmTszlSYD2-KXKRXpp_QB6ugM&hl=en&ei=7kEBTee0LoOnrAfk86CRDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBsQ6AEwAQ#v=onepage&q=%22high%20Inventory%20Turnover%22%20consequence&f=false

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

Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end the end of four years?

- ▶ Rs.10,208
- ▶ **Rs.9,728**
- ▶ Rs.10,880
- ▶ Rs.9,624

Reference:

$FV = PV(1+i)^n$

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

Which of the following is the main source of income for the buyer of a zero-coupon bond?

- ▶ Price appreciation
- ▶ A rate of return equal to zero over the life of the bond

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- ▶ Variable dividends instead of a fixed interest payment annually
- ▶ **All interest payments in one lump sum at maturity**

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

Which of the following techniques of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

- ▶ Technical Analysis
- ▶ **Fundamental Analysis**
- ▶ Constant Growth Model
- ▶ No Growth Model

Reference:

The biggest part of fundamental analysis involves delving into the financial statements. Also known as quantitative analysis

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

Which of the following statements is CORRECT regarding the fundamental analysis?

- ▶ Fundamental analysts use only Economic indicators to evaluate a stock
- ▶ Fundamental analysts use only financial information to evaluate a company's stocks
- ▶ **Fundamental analysts use financial and non-financial information to evaluate a company's stocks**
- ▶ Fundamental analysts use only non-financial information to evaluate a company's stocks

Reference:

Page 24

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

Which of the following could be used to calculate the cost of common equity?

- ▶ Interpolation method
- ▶ Dividend discount model
- ▶ YTM (Yield-to-Maturity) method
- ▶ **Capital structure valuation**

Reference:

Page#59

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

Which of the following is a long-term source of financing for a firm?

- ▶ **Corporate bonds**
- ▶ Money market instruments

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- ▶ Trade credit
- ▶ Accounts payables

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

Since the capital budgeting techniques use cash flows instead of accounting flows, therefore, the financial manager must add back which one of the following to the analysis?

- ▶ The cost of fixed assets
- ▶ The cost of accounts payable
- ▶ Investments
- ▶ **Depreciation**

Reference:

http://highereducation.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#2

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

Which of the following statements is correct for a project with a positive Net Present Value (NPV)?

- ▶ **Internal rate of return (IRR) exceeds the cost of capital**
- ▶ Accepting the project has an indeterminate effect on shareholders
- ▶ The discount rate exceeds the cost of capital
- ▶ The profitability index equals one

Reference:

<http://webcache.googleusercontent.com/search?q=cache:iv45Jjtq7f0J:students.uta.edu/yx/yxd0907/fina3313/Answer%2520key%2520to%2520homework%25202.doc+Which+of+the+following+changes+will+increase+the+Net+Present+Value+%28NPV+%29+of+a+project&cd=1&hl=en&ct=clnk&gl=pk&client=firefox-a>

Question#39

Question No: 29 (Marks: 3)

Why weighted average cost of capital (WACC) should be used as discount rate for analyzing the financial viability of a project?

Solution:-

The WACC is the minimum return that a company must earn on an existing asset base to satisfy its creditors, owners, and other providers of capital, or they will invest elsewhere. Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances.

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A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company directors to determine the economic feasibility of a project. It is the appropriate discount rate to use for cash flows with risk that is similar to that of the overall firm.

Question No: 30 (Marks: 3)

Suppose you have 40% of your portfolio invested in firm A, 30% in firm B, 20% in firm C, and 10% in firm D. You know that the betas for these firms are, respectively, 1.2, 1.4, 0.8, and 1.1. Calculate your portfolio beta.

Solution:-

$$\begin{aligned} & (0.4 * 1.2) + (0.3 * 1.4) + (0.2 * 0.8) + (0.1 * 1.1) \\ & = 0.48 + 0.42 + 0.16 + 0.11 \\ & = 1.17 \end{aligned}$$

Question No: 31 (Marks: 5)

Differentiate between accounting breakeven point and economic break even point.

Solution:-

Accounting Break-Even Analysis

In simple terms a company breakeven when $TR=TC$. It is a no profit no loss situation. The sales break-even point is estimated to be the fixed costs including depreciation divided by the percentage of sales contribution margin, or the fixed costs including depreciation divided by one minus the variable cost to sales ratio:

$$\text{Break-even Sales} = \frac{\text{Fixed Costs Including Depreciation}}{[1 - (\text{Var. Cost} / \text{Sales})]}$$

A project that *just* breaks even in accounting income terms will have a negative NPV. Accounting break-even analysis does not consider the cost of capital invested in the project.

There is only one Accounting break-even point.

The **economic break-even point** is the level of sales from a project needed to generate a zero NPV.

The sales level that produces an NPV of zero is always *higher* than the sales level for the accounting break-even point.

There are two BE points for economists. & the maximum profit is the widest area between that points.

Break-even Sales =

$$\frac{[(\text{Fixed Costs Including Depreciation})(1-T) + \text{Annual cost of capital} - \text{Depreciation}]}{[(1-T)\{1 - (\text{Var. Cost} / \text{Sales})\}]}$$

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CONCLUSION:-

Within the relevant range accountants & economists breakeven points are not too different.

Question No: 32 (Marks: 5)

Why capital asset pricing model (CAPM) is more suitable to calculate the cost of equity as compared to dividend growth model? Discuss.

Solution:-

Capital Asset Pricing Model VS Dividend Growth Model

The dividend growth model approach has limited application in practice because of its two assumptions.

1. It assumes that the dividend per share will grow at a constant rate, g , forever
2. The expected dividend growth rate, g , should be less than the cost of equity, to arrive at the simple growth formula.

The growth formula is,

Cost of equity = (Dividend in year one / Price in current year) + growth

These assumptions imply that the dividend growth approach cannot be applied to those companies, which are not paying any dividends, or whose dividend per share is growing at a rate higher than cost of equity, or whose dividend policies are highly volatile. The dividend growth model approach also fails to deal with risk directly. In contrast, the Capital **asset** pricing model has a wider application although it is based on restrictive assumptions. The only condition for its use is that the companies share is quoted on the stock exchange. Also, all variables in the Capital **asset** pricing model are market determined and expect the company specific share price data; they are common to all companies. The value of beta is determined in an objective manner by using sound statistical method.

CAPM is generally seen as a much better method of calculating the cost of equity than the dividend growth model (DGM) in that it explicitly takes into account a company's level of systematic risk relative to the stock market as a whole.

Paper No. 2

MIDTERM EXAMINATION

Spring 2010

FIN622- Corporate Finance (Session – 3)

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

Which of the following is a transaction of a primary financial market?

► **Initial Public Offering**

- Buying Mutual Funds Certificates
- Selling old shares
- Buying Bonds issued in previous years

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

Last year ABC Company had a 9.00% net profit margin based on Rs.22,000,000 in sales and Rs.15,000,000 of total assets. During the coming year, the president has set a goal of attaining a 14% return on total assets. How much must firm sales equal, other things being the same, for the goal to be achieved?

► **Rs.23,333,333**

- Rs.22,000,000
- Rs.26,722,967
- Rs.25,603,667

Reference:

<http://www.pageout.net/user/www/r/k/rkiss/Brigham%20chapter3.doc>

Question#28

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

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If you want to earn 8 percent, approximately how much should you pay for a security which matures in one year at Rs. 1,000?

- ▶ Rs. 1,080
- ▶ Rs. 940
- ▶ Rs. 920
- ▶ **Rs. 926**

Reference:

$$PV = FV/(1+i)$$

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

Which of the following statements describes the term structure of interest rates?

- ▶ Term structure of interest rates refers to the relationship between yield and rating, for securities with the same maturity.
- ▶ Term structure of interest rates refers to the relationship between yield and marketability, for securities with the same tax status.
- ▶ **Term structure of interest rates refers to the relationship between yield and maturity, for the same security class.**
- ▶ Term structure of interest rates refers to the relationship between yield and risk, for securities with the same maturity.

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

A Company's common stock is currently selling at Rs.3.00 per share, its quarterly dividend is Rs.0.07, and the stock is expected to rise to Rs.3.30 in a year. What is its expected rate of return?

- ▶ 9.3%
- ▶ **19.3%**

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▶ 10.0%

▶ 11.0%

Expected Returns:

Total Return = Dividends + Capital Gains

= $D1 + (P1 - P0) / P0$

= $0.07 * 4 + (3.30 - 3) / 3$

= $0.28 + 0.3 / 3$

= $0.58 / 3$

= $0.193 * 100$

= 19.3%

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

For a firm with a Degree of Operating Leverage of 3.5, an increase in sales of 6% will:

▶ Increase pre-tax profits by 3.5%

▶ Decrease pre-tax profits by 3.5%.

▶ **Increase pre-tax profits by 21.0%.**

▶ Increase pre-tax profits by 1.71%.

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

Which of the following best illustrates the problem imposed by capital rationing?

▶ Accepting projects with the highest NPVs first

▶ Accepting projects with the highest IRRs first

▶ **By passing projects that have positive NPVs**

▶ Bypassing projects that have positive IRRs

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

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Which of the following is determined by variance of an investment's returns?

- ▶ Volatility of the rates of return.
- ▶ Probability of a negative return.
- ▶ Historic return over long periods.
- ▶ Average value of the investment.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter11/chapter_quiz.html

Question#8

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

Which of the following conditions, if exist, will make the diversification of stocks more effective?

- ▶ Securities contained in a portfolio are positively correlated
- ▶ **Securities contained in a portfolio are negatively correlated**
- ▶ Securities contained in a portfolio have high market values
- ▶ Securities contained in a portfolio have low market values

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

Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on this stock?

- ▶ 2%
- ▶ 3%
- ▶ 4%

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▶ 5%

Reference:

Dividend yield = Annual dividends per share / price per share

= 2 / 35

= 0.057

= 5%

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

Which of the following statements applies to Security Market Line (SML)?

▶ Security Market Line (SML) shows the relationship between expected rate of return and required rate of return of a security.

▶ Security Market Line (SML) shows the relationship between Beta and market value of a security.

▶ **Security Market Line (SML) shows the relationship between required rate of return and beta coefficient of a security.**

▶ Security Market Line (SML) shows the relationship between Market value and face value of a security.

Question No: 12 (Marks: 1) - Please choose one

Which of the following is known as market portfolio?

▶ A portfolio consists of all risk free securities available in the market

▶ A portfolio consists of securities of the same industry

▶ A portfolio consists of all aggressive securities available in the market

▶ **A portfolio consists of all securities available in the market**

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

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A firm had an interest expense of Rs.400,000 on its outstanding debt during the financial year 2006-2007. If the firm marginal tax rate is 40%, what was the total tax savings of the firm during the period 2006-2007?

▶ Rs.150, 000

▶ **Rs.160, 000**

▶ Rs.170, 000

▶ Rs.180, 000

Reference:

$$400000 * 40 / 100 = 160000$$

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

A Pure Play method of selecting a discount rate is most suitable in which of the following situations?

▶ When the intended investment project has a Non-conventional stream of cash flows

▶ When the intended investment project is a replacement project

▶ **When the intended investment project belongs to industry other than the firms operating in**

▶ When the intended investment project has a conventional stream of cash flows

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

Which of the following statements is TRUE regarding an Un-levered firm?

▶ **Its Return on Equity is equal to Return on Assets**

▶ Its Return on Equity is equal to Return on Investment

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- ▶ Its Return on Equity is equal to Return on Sales
- ▶ Its Return on Equity is equal to Return on Non-fixed Assets

Reference:

http://books.google.com.pk/books?id=ZRTx8c58xKAC&pg=PA541&lpg=PA541&dq=%22ROE+and+ROA%22+for+unlevered&source=bl&ots=7jUqEQbXSG&sig=CLcWyErlgq0YCv_FdlzKpHUQraA&hl=en&ei=iz0CTZjKKpHKrAf23qCRDw&sa=X&oi=book_result&ct=result&resnum=3&ved=0CCMQ6AEwAg#v=onepage&q=%22ROE%20and%20ROA%22%20for%20unlevered&f=false

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

Which of the following is the principal advantage of high debt financing?

▶ Tax savings

- ▶ Low Bankruptcy costs
- ▶ Minimum financial risk
- ▶ Low financial leverage

Reference:

Benefits of Debt

There are two main advantages of debt financing: taxation, and added discipline.

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

Which of the following is the main objective of a Residual Dividend Policy?

- ▶ **To use internal resources for investment in projects and business operations**
- ▶ To pay a fixed amount of Dividend to shareholders of the firm
- ▶ To maintain a constant payout ratio

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- ▶ To stabilize Dividend per share

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

Which of the following methods would be most suitable for calculating the return on stocks of a non-listed company?

▶ **Dividend Growth Model**

- ▶ Capital Asset Pricing Model
- ▶ Security Market Line
- ▶ Characteristics Line

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
- ▶ **It has no effect on the break-even level.**
- ▶ This cannot be determined without knowing the length of the investment horizon.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter10/chapter_quiz.html
Question#10

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

Which of the following are the primary sources of capital to the firm?

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- ▶ Net income, Retained earnings and Bank loans
- ▶ Bonds, Preferred stock and Common stock
- ▶ Operating profits, extraordinary gains and Dividends
- ▶ Amortization cash flow, Net income and Retained earnings

Reference:

http://highered.mcgraw-hill.com/sites/007089762x/student_view0/chapter2/multiple_choice_quiz.html

Question#2

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

Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end the end of four years?

- ▶ Rs.10, 208
- ▶ **Rs.9, 728**
- ▶ Rs.10, 880
- ▶ Rs.9, 624

Reference:

$FV = PV(1+i)^n$

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

Which of the following refers to an analysis of financial statements where all balance sheet or income statement figures for a base year equal 100.0 and financial statement items for subsequent years are expressed as percentages of the base year values?

- ▶ Common-size analysis
- ▶ Ratio analysis
- ▶ **Index analysis**

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► Technical analysis

Reference:

Index Analyses

An analysis of *percentage* financial statements where **all** balance sheet or income statement figures for a base year equal 100.0 (percent) and subsequent financial statement items are expressed as percentages of their values in the base year.

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

Which of the following is more appropriate to use while comparing investment alternatives with different compounding periods?

► Quoted Interest Rate

► Annual Percentage Rate

► **Effective Annual Interest Rate**

► Nominal Interest Rate

Reference:

http://books.google.com.pk/books?id=yCINbKM7hScC&pg=SA2-PA9&lpg=SA2-PA9&dq=%22investment+alternatives+with+different+compounding%22&source=bl&ots=END6-khaWZ&sig=UDYHFoQE7Jt7d8mr-jzAHAyYxI4&hl=en&ei=11sBTY6BLM7trQfSyfyQDw&sa=X&oi=book_result&ct=result&resnum=3&ved=0CCAQ6AEwAg#v=onepage&q=%22investment%20alternatives%20with%20different%20compounding%22&f=false

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

ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

► 40

► 35

Note: Solve these papers by yourself

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▶ 30

▶ 25

Reference:

Price per share = Annual dividends per share / dividend yield

= 2.40 / 0.08

= 30

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

Which one of the following costs should be ignored while evaluating the financial viability of a project?

- ▶ Initial cost
- ▶ Equipment cost
- ▶ Cost of capital

▶ **Sunk cost**

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

In which of the following situations a project is acceptable?

- ▶ When a project has conventional cash flows patterns
- ▶ When a project has a non-conventional cash flow pattern
- ▶ When a project has a discounted rate higher than the inflation rate
- ▶ **When a project has a positive net present value**

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

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Which of the following capital budgeting methods states the project return as a percentage?

- ▶ Payback period
- ▶ Net present value
- ▶ **Internal Rate of Return**
- ▶ None of the given options

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

What is the Net Present Value (NPV) of a project that costs Rs.100,000 and returns Rs.45,000 annually for three years if the opportunity cost of capital is 14%?

- ▶ Rs.16, 100.00
- ▶ Rs.35, 000.00
- ▶ Rs.3, 397.57
- ▶ **Rs.4, 473.44**

Reference:

$$\begin{aligned} \text{NPV} &= -I_0 + \text{CF}_1/(1+i)^1 + \text{CF}_2/(1+i)^2 + \text{CF}_3/(1+i)^3 \\ &= -100000 + 45000/(1.14) + 45000/(1.14)^2 + 45000/(1.14)^3 \\ &= -100000 + 39474 + 34626 + 30374 \\ &= 4474 \end{aligned}$$

Question No: 29 (Marks: 3)

How stable dividend policy could increase the marketability of a firm's shares?

Question No: 30 (Marks: 3)

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Differentiate between the single period capital rationing and multi-period capital rationing.

Single period capital rationing

It is a situation where the company has limited amounts of funds in one investment period only. After that period, the company can access funds from various sources, e.g. issuing shares, borrowing from banks or issuing bonds.

Multi-period capital rationing.


It occurs where the company has limited amounts of funds for a longer duration of time. The capital constraints extend beyond one investment period. If we assume that it's possible to undertake fractional projects then the problem can be formulated using linear programming. If the projects are indivisible, however, then integer programming should be used.

Question No: 31 (Marks: 5)

In the year ending January 2008, Wal-Mart paid out Rs.1,326 million as debt interest. How much more tax would Wal-Mart have paid if the firm had been entirely financed by equity? What would be the present value of Wal-Mart's interest tax shield if the company planned to keep its borrowing permanently at the 2008 level? Assume an interest rate of 8% and a corporate tax rate of 35%.

Question No: 32 (Marks: 5)

Suppose you are a capital budgeting manager of a company. For current year you have a total capital budget of Rs.6,000,000. Following are given the projects available for investment:



| Projects | Initial Investment (millions) | Annual Cash flows (millions) | Project Life (years) | Discount Rates |
|----------|-------------------------------|------------------------------|----------------------|----------------|
| A | 3 | 1 | 5 | 10% |

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| | | | | |
|---|---|-----|---|-----|
| B | 3 | 1.5 | 3 | 8% |
| C | 3 | 1 | 6 | 12% |

Requirement:-

Which project(s) should be selected for investment with in the given budget?

Paper No. 3

MIDTERM EXAMINATION

Spring 2009

FIN622- Corporate Finance (Session - 5)

Solved By Hafiz Salman Majeed

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

Which of the following could be used to calculate the cost of common equity?

- ▶ Interpolation method
- ▶ Dividend discount model
- ▶ YTM method
- ▶ Capital structure valuation

Reference:

Page#59

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
- ▶ It has no effect on the break-even level.
- ▶ This cannot be determined without knowing the length of the investment horizon.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter10/chapter_quiz.html

Question#10

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

In Capital Assets Pricing Model, which of the following shows time value of money?

- ▶ Beta of the security
- ▶ Risk free rate of return
- ▶ Risk premium
- ▶ Market rate of return

Reference:

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time.

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

- ▶ Value of a firm is independent of its capital structure
- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital

- ▶ Value of a firm is independent on its level of equity finances

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

In which of the following dividend policies, the amount of dividend is relatively fixed?

- ▶ Constant payout ratio policy
- ▶ Hybrid dividend policy
- ▶ Residual dividend policy
- ▶ Stable dividend policy

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

Which of the following risks increases as the debt level of a business increases?

- ▶ financial risk
- ▶ Operating risk
- ▶ Business risk
- ▶ Investment risk

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

Which of the following risks is independent of capital structure of a firm?

- ▶ Financial risk

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- ▶ Systematic risk
- ▶ Business risk
- ▶ Total risk

Reference:

The business risk is assumed to be constant and independent of capital structure and financial risk

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

Which of the following *best* define the term 'Capital Structure'?

- ▶ The proportion of equity used by a firm
- ▶ The proportion of debt and equity capital used by a firm
- ▶ The proportion of long-term liabilities used by a firm
- ▶ The proportion of short-term bank loan used by a firm

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

Which of the following is tax deductible?

- ▶ Dividend on preferred shares
- ▶ Dividend on common stocks
- ▶ Coupon payments on bonds
- ▶ Capital gain on common stocks

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

Suppose a stock is selling today for Rs.40 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.44.00. what is the rate of return on this stock?

- ▶ 12%
- ▶ 13%
- ▶ 14%
- ▶ 15%

Reference:

Expected Returns:

$$\begin{aligned}\text{Total Return} &= \text{Dividends} + \text{Capital Gains} \\ &= D_1 + (P_1 - P_0) / P_0 \\ &= 2 + (44 - 40) / 40 \\ &= 2 + 4 / 40 \\ &= 6/40 \\ &= 0.15 * 100 \\ &= 15\%\end{aligned}$$

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

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Which of the following is determined by variance of an investment's returns?

- ▶ Volatility of the rates of return.
- ▶ Probability of a negative return.
- ▶ Historic return over long periods.
- ▶ Average value of the investment.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter11/chapter_quiz.html

Question#8

Question No: 12 (Marks: 1) - Please choose one

Which of the following best illustrates the problem imposed by capital rationing?

- ▶ Accepting projects with the highest NPVs first
- ▶ Accepting projects with the highest IRRs first
- ▶ Bypassing projects that have positive NPVs
- ▶ Bypassing projects that have positive IRRs

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

Market demand allowed a company, to raise its price by 20% to \$60. What is the new level of break-even revenues if fixed charges including depreciation are \$1 million and variable costs were 70% of the old price?

- ▶ \$2,000,000
- ▶ \$2,400,000
- ▶ \$2,857,143
- ▶ \$3,333,333

Reference:

$$\text{old price} = \frac{\$60}{1.2} = \$50$$

therefore, variable costs = \$50 x .7 = \$35., which equals 58.33% of new price.

$$\text{new break-even} = \frac{\$1 \text{ million}}{.4167} = \$2,400,000$$

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

Which of the following capital budgeting methods states the project return as a percentage?

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- ▶ Payback period
- ▶ Net present value
- ▶ Internal Rate of Return
- ▶ None of the given options

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

Which of the following capital budgeting methods focuses on firm's liquidity?

- ▶ None of the given options
- ▶ Payback method
- ▶ Net Present Value
- ▶ Internal Rate of Return

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#3

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

In which of the following situations a project is acceptable?

- ▶ When a project has conventional cash flows patterns
- ▶ When a project has a non-conventional cash flow pattern
- ▶ When a project has a discounted rate higher than the inflation rate
- ▶ When a project has a positive net present value

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

Which of the following statements is Correct regarding the fundamental analysis?

- ▶ Fundamental analysts use only Economic indicators to evaluate a stock
- ▶ Fundamental analysts use only financial information to evaluate a company's stocks
- ▶ Fundamental analysts use financial and non-financial information to evaluate a company's stocks
- ▶ Fundamental analysts use only non-financial information to evaluate a company's stocks

Reference:

Page 24

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

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant

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rate of 5%, what must be the expected rate of return on the company's stock?

- ▶ 14%
- ▶ 13%
- ▶ 12%
- ▶ 10%

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

You are considering buying common stock in Grow On, Inc. The firm yesterday paid a dividend of \$7.80. You have projected that dividends will grow at a rate of 9.0% per year indefinitely. If you want an annual return of 24.0%, what is the most you should pay for the stock now?

- ▶ \$52.00
- ▶ \$56.68
- ▶ \$32.50
- ▶ \$35.43

Solution:-

$$P_0 = D_1(1+g) / (ror - g)$$

$$P_0 = 7.8(1.09) / (0.24 - 0.09)$$

$$P_0 = 8.502 / 0.15$$

$$P_0 = 56.68$$

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

If a bond sells at a high premium, then which of the following relationships hold true? (P₀ represents the price of a bond and YTM is the bond's yield to maturity.)

- ▶ P₀ < par and YTM < the coupon rate.
- ▶ P₀ < par and YTM > the coupon rate.
- ▶ P₀ > par and YTM > the coupon rate.
- ▶ P₀ > par and YTM < the coupon rate.

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc4.html>

Question#6

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

An investor buys a bond that will pay the interest amount of Rs.60 annually, forever. If there is exactly one year remaining until the next interest payment and the investor's required annual return is 5 percent, the present value of this bond is closest to which one of the following?

- ▶ Rs.1,200.

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- ▶ Rs.800.
- ▶ Rs.600.
- ▶ Rs.1,000.

Reference:

Present value of perpetuity=C/r

Present value of perpetuity=60/0.05

Present value of perpetuity= 1200

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

Which one of the following is a long-term contract under which a borrower agrees to make payments of interest and principal on specific dates?

- ▶ Common stock.
- ▶ Preferred stock
- ▶ Equity contract.
- ▶ Bond.

Reference:

http://books.google.com.pk/books?id=GF_EO-ZxyM4C&pg=PA31&lpg=PA31&dq=borrower+agrees+to+make+payments+of+interest+and+principal+on+specific+dates&source=bl&ots=3qL11vfkUF&sig=4mqxqVxNQRie6NwTm7JOto5pAKg&hl=en&ei=lnMBTaHVE4eyrAfwTKyRDw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBQQ6AEwAA#v=onepage&q=borrower%20agrees%20to%20make%20payments%20of%20interest%20and%20principal%20on%20specific%20dates&f=false

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

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

- ▶ \$82,168.44
- ▶ \$71,450.82
- ▶ \$768,901.12
- ▶ \$668,609.67

Reference:

Calculations:-

$$fv = p * (((1 + i) ^ n - 1) / i) * (1 + i)$$

$$P = 12000$$

$$i = 15\%$$

$$n = 16$$

$$fv = p * (((1 + 0.15) ^ 16 - 1) / 0.15) * (1 + 0.15)$$

$$12000 * (((1 .15) ^ 16 - 1) / 0.15) * (1 .15)$$

$$12000 * (((9.357620873 - 1) / 0.15) * (1 .15))$$

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12000 * (((8.357620873) / 0.15) * (1.15))
12000 * (55.71747249) * (1.15)
12000 * (64.07509336)
768901

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

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

- ▶ Rs.22,863
- ▶ Rs.35,097
- ▶ Rs.39,310
- ▶ Rs.25,151

Reference:

Calculations:-

$$FV = P * \left(\frac{(1+i)^n - 1}{i} \right) * (1+i)$$

$$P = 2000$$

$$I = 0.12$$

$$N = 10 \text{ years}$$

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

Which of the following transactions affects the acid-test ratio?

- ▶ Receivables are collected.
- ▶ Inventory is liquidated for cash.
- ▶ New common stock is sold and used to retire a debt issue.
- ▶ A new common stock issue is sold and equipment purchased.

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

Which of the following would be a consequence of a high Inventory Turnover Ratio?

- ▶ Too low a level of inventory and frequent stock-outs.
- ▶ Seasonal elements peculiar to the business.
- ▶ Efficient inventory management.
- ▶ Any of the given option.

Reference:

http://books.google.com.pk/books?id=fWG2_eTKbM4C&pg=PA40&lpg=PA40&dq=%22high+Inventory+Turnover%22+consequence&source=bl&ots=cgQ5LgPQzT&sig=fjcMtszlSYD2-

[KXKRXpp_QB6ugM&hl=en&ei=7kEBTee0LoOnrAfk86CRDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBsQ6AEwAQ#v=onepage&q=%22high%20Inventory%22](http://books.google.com.pk/books?id=fWG2_eTKbM4C&pg=PA40&lpg=PA40&dq=%22high+Inventory+Turnover%22+consequence&source=bl&ots=cgQ5LgPQzT&sig=fjcMtszlSYD2-KXKRXpp_QB6ugM&hl=en&ei=7kEBTee0LoOnrAfk86CRDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBsQ6AEwAQ#v=onepage&q=%22high%20Inventory%22)

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20Turnover%22%20consequence&f=false

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

Which of the following statements (in general) is correct?

- ▶ A low receivables turnover is desirable.
- ▶ The lower the total debt-to-equity ratio, the lower the financial risk for a firm.
- ▶ An increase in net profit margin with no change in sales or assets means a poor ROI.
- ▶ The higher the tax rate for a firm, the lower the interest coverage ratio

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#8

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

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. What do these ratios tell about this company?

- ▶ The company will be viewed as having high creditworthiness
- ▶ The company has greater than average financial risk when compared to other firms in its industry
- ▶ The company will not experience any difficulty with its creditors
- ▶ The company has less liquidity than other firms in the industry

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#8

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

Felton Farm Supplies, Inc., has an 8 percent return on total assets of Rs.300,000 and a net profit margin of 5%. What are its sales?

- ▶ Rs.3,750,000
- ▶ Rs.480,000
- ▶ Rs.300,000
- ▶ Rs.1,500,000

Reference:

Total Asset Turnover = Return on investment / Net profit Margin

Total Asset Turnover = 0.08/ 0.05

Total Asset Turnover = 1.6

Sales = Total Assets * Total Assets Turnover

Sales = 300000 * 1.6

Sales = 480000

Note: Solve these papers by yourself

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

In which one of the following markets the bonds of a Corporation shall be traded now who were issued 10 years back?

- ▶ Primary market
- ▶ Secondary market
- ▶ Money Market
- ▶ All of the above

Question No: 31 (Marks: 5)

A Company had the following data, extracted from its financial statements for the year ending June 30, 2008:

- a) Current Ratio = 2
- b) Acid Ratio = 1.5
- c) Current Liabilities = \$500,000
- d) Inventory Turnover = 5
- e) Gross Profit Margin = 20 percent

What were its sales for the year?

SOLUTION:-

Current ratio = current asset / current liabilities

2 = current asset / 500,000

current asset = 1000,000

Acid Ratio = (current asset – inventory) / current liabilities

1.5 = (1000,000 – inventory) / 500,000

Inventory = 250,000

Inventory Turnover = CGS / inventory

5 = CGS / 250,000

CGS = 1250,000

Sales 100% **1562,500** (1250,000/0.8)

CGS 80% 1250,000

GP 20%

Question No: 32 (Marks: 10)

Note: Solve these papers by yourself

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Bank A pays 6.2% interest compounded semiannually and **Bank B** pays 6% interest, compounded monthly. Which bank offers the higher effective annual rate?

Paper No. 4

MIDTERM EXAMINATION

Fall 2009

FIN622- Corporate Finance (Session - 4)

Solved By Hafiz Salman Majeed

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

Following are amongst the three main areas of Finance **EXCEPT**:

- ▶ Financial institutions
- ▶ Investments
- ▶ **Accounting**
- ▶ Financial management

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

Which one of the following is an offering in which the shares of a company are offered to a limited number of investors?

- ▶ Initial Public Offering
- ▶ **Private Placement**
- ▶ Direct Public Offering
- ▶ Primary Offering

Reference:

Private Placements or private equity investing are usually long term loans provide by a limited number of investors

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

If you want to earn 8 percent, approximately how much should you pay for a security which matures in one year at Rs. 1,000?

- ▶ Rs. 1,080
- ▶ Rs. 940
- ▶ Rs. 920
- ▶ **Rs. 926**

Reference:

$$PV = FV/(1+i)$$

Note: Solve these papers by yourself

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

When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at which of the following?

- ▶ At discount
- ▶ **At premium**
- ▶ At par value
- ▶ At indeterminate price

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

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

- ▶ **Sensitivity Analysis**
- ▶ Fundamental Analysis
- ▶ Technical Analysis
- ▶ Trend Analysis

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

For a firm with a Degree of Operating Leverage of 3.5, an increase in sales of 6% will:

- ▶ Increase pre-tax profits by 3.5%
- ▶ Decrease pre-tax profits by 3.5%.
- ▶ **Increase pre-tax profits by 21.0%.**
- ▶ Increase pre-tax profits by 1.71%.

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

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.

- ▶ **Degree of operating leverage**
- ▶ Degree of profit leverage
- ▶ Degree of total leverage
- ▶ Degree of financial leverage

Reference:

Degree of Operating Leverage -- The percentage change in a firm's operating profit (EBIT) resulting from a 1 percent change in output (sales).

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

Suppose a stock is selling today for Rs.60 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.66.00. what is the capital gain yield on the stock?

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<http://groups.google.com/group/vu-askari?hl=en>

- ▶ 7%
- ▶ 8%
- ▶ 9%
- ▶ 10%

Reference:

Capital Gain Yield = $(P_n - P_o) / P_o$

Capital Gain Yield = $(66 - 60) / 60$

Capital Gain Yield = $6/60 = 0.1 * 100$

Capital Gain Yield = 10%

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

Which of the following is considered as a risk free financial asset?

- ▶ **Government T-bills**
- ▶ Junk bonds
- ▶ Preferred stock
- ▶ Secured bonds

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

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

- ▶ Normal stocks
- ▶ Aggressive stocks
- ▶ **Defensive stocks**
- ▶ Income stocks

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

Which of the following is known as market portfolio?

- ▶ A portfolio consists of all risk free securities available in the market
- ▶ A portfolio consists of securities of the same industry
- ▶ A portfolio consists of all aggressive securities available in the market
- ▶ **A portfolio consists of all securities available in the market**

Question No: 12 (Marks: 1) - Please choose one

What will be the risk premium if the market portfolio has an expected return of 10% and the risk free rate is 4%?

- ▶ 4%

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- ▶ 5%
- ▶ **6%**
- ▶ 7%

Reference:

Market risk premium, (Erm – Rf)

Market risk premium, (10% – 4%)

Market risk premium, (6%)

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

Which of the following statements is true regarding Weighted Average Cost of Capital (WACC)?

- ▶ WACC of a levered firm is greater than that of an un-levered firm
- ▶ WACC of a levered firm is lesser than that of an un-levered firm
- ▶ **WACC of a levered firm is equal to that of an un-levered firm**
- ▶ An Un-levered firm has zero WACC.

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

XYZ Airlines will pay a Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

- ▶ **9%**
- ▶ 4%
- ▶ 5%
- ▶ 7%

Reference:

$ROR = D1 / P0 + g$

$ROR = (4/100) + 0.05$

$ROR = (0.04) + 0.05$

$ROR = 0.04 + 0.05$

$ROR = 0.09 * 100$

$ROR = 9\%$

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

A Pure Play method of selecting a discount rate is most suitable in which of the following situations?

- ▶ When the intended investment project has a Non-conventional stream of cash flows
- ▶ When the intended investment project is a replacement project
- ▶ **When the intended investment project belongs to industry other than the firms operating in**
- ▶ When the intended investment project has a conventional stream of cash flows

Note: Solve these papers by yourself

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

A Levered firm has a lower weighted average cost of capital as compare to an Un-levered firm because of which of the following?

▶ **Interest tax shield**

- ▶ Low level of financial risk
- ▶ Low level of business risk
- ▶ Low level of systematic risk

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

ABC Corporation declared 10% dividend on its shares. A person purchased some shares of this corporation after the dividend was announced. If he is entitled to receive the declared dividend, his shares would be categorized as which of the following?

▶ **Ex-Dividend**

- ▶ Cum-Dividend
- ▶ Stock- Dividend
- ▶ Cash Dividend

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

Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?

▶ **Stock Dividend**

- ▶ Cum Dividend
- ▶ Ex Dividend
- ▶ Extra Dividend

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

Which of the following firms would have the highest financial leverage?

- ▶ A firm having debt-to-equity ratio of 30:70
- ▶ A firm having debt-to-equity ratio of 40:60
- ▶ A firm having debt-to-equity ratio of 50:50
- ▶ **A firm having debt-to-equity ratio of 60:40**

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

Which of the following is the principal advantage of high debt financing?

▶ **Tax savings**

- ▶ Low Bankruptcy costs
- ▶ Minimum financial risk

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- ▶ Low financial leverage

Reference:

Benefits of Debt

There are two main advantages of debt financing: taxation, and added discipline.

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

- ▶ **Value of a firm is independent of its capital structure**
- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital

- ▶ Value of a firm is independent on its level of equity finances

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

Which of the following is a disadvantage of Capital Asset Pricing Model?

- ▶ It considers market risk
- ▶ It can be used for listed companies
- ▶ It can be used for non-listed companies
- ▶ **It is based on past data**

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

Which of the following shows the reward to risk ratio of a Security A?

- ▶ **Expected return of A (r_A) – risk free return / beta of A**
- ▶ Expected return of A (r_A) – risk free return / required return of A
- ▶ Expected return of A (r_A) – beta of A / risk free return
- ▶ Risk free return - expected return of A (r_A) / beta of A

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

In Capital Assets Pricing Model, which of the following shows time value of money?

- ▶ Beta of the security
- ▶ **Risk free rate of return**
- ▶ Risk premium
- ▶ Market rate of return

Reference:

The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the **risk-free (rf) rate** in the formula and compensates the investors for placing money in any investment over a period of time.

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

Which of the following statements is **TRUE** regarding Balance Sheet of a firm?

- ▶ It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
- ▶ It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
- ▶ **It shows the firm's financial position at a specific point in time.**
- ▶ It summarizes the firm's revenues and expenses over an accounting period.

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

Suppose that a corporation of which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. How much of your investment would you get back?

- ▶ A proportionate share of bondholder claims based on the number of common shares that you own
- ▶ A proportional share of all creditor claims based on the number of common shares that you own
- ▶ An amount that could, at most, equal what you originally paid for the shares of common stock in the corporation
- ▶ **Nothing at all**

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc2.html>

Question#4

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

The gross profit margin is unchanged, but the net profit margin declined over same period. This could have happened due to which one of the following reasons?

- ▶ Cost of goods sold increased relative to sales
- ▶ Sales increased relative to expenses
- ▶ **The tax rate has been increased**
- ▶ Dividends were decreased

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#4

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

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. What do these ratios tell about this company?

- ▶ The company will be viewed as having high creditworthiness
- ▶ **The company has greater than average financial risk when compared to**

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other firms in its industry

- ▶ The company will not experience any difficulty with its creditors
- ▶ The company has less liquidity than other firms in the industry

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#8

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

If a creditor wants to know about the bill payment status of a potential customer, the creditor could look at which one of the following ratios?

- ▶ Current ratio
- ▶ Acid ratio
- ▶ **Average age of accounts payable**
- ▶ Average age of accounts receivable

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

Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end the end of four years?

- ▶ Rs.9,624
- ▶ Rs.10,208
- ▶ **Rs.9,728**
- ▶ Rs.10,880

Reference:

$FV = PV(1+i)^n$

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

The present value of Rs.100 per year received for 10 years discounted at 8 percent is closest to which of the following amounts?

- ▶ Rs.177
- ▶ Rs.362
- ▶ Rs.425
- ▶ **Rs.671**

Reference:

$PV_{oa} = PMT [(1 - (1 / (1 + i)^n)) / i]$

$PV_{oa} = 100 [(1 - (1 / (1 + 0.08)^{10})) / 0.08]$

$PV_{oa} = 100 [(1 - (1 / (1.08)^{10})) / 0.08]$

$PV_{oa} = 100 [(1 - (1 / (2.158924997)) / 0.08]$

$PV_{oa} = 100 [(1 - 0.463193488) / 0.08]$

$PV_{oa} = 100 [0.536806512 / 0.08]$

$PV_{oa} = 100 [6.7100]$

Note: Solve these papers by yourself

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Pvoa = 671

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

How many years will it take for Rs.152,000 to grow to be Rs. 405,000 if it is invested in an account with an annual interest rate of 10%?

- ▶ 13.68
- ▶ 8.23
- ▶ 10.28
- ▶ Cannot be calculated from the given data

Reference:

<http://webcache.googleusercontent.com/search?q=cache:wZYpkI18Q4EJ:www.pageout.net/user/www/r/k/rkiss/cquest6.%28A%29.doc+How+many+years+will+it+take+for+Rs.152,000+to+grow+to+be+Rs.+405,000+if+it+is+invested+in+an+account+with+an+annual+interest+rate+of+10%25%3F&cd=6&hl=en&ct=clnk&gl=pk>

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

Which of the following types of bonds pays no annual interest to the holder, but is sold at discount below the par value?

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond
- ▶ A zero coupon bond

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

Which of the following is a financial asset?

- ▶ A building
- ▶ Bonds
- ▶ Inventories
- ▶ Equipments

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

An investor buys a bond that will pay the interest amount of Rs.60 annually, forever. Which of the following would be the present value of the bond if there is exactly one year remaining until the next interest payment and the investor's required annual return is 5 percent?

- ▶ Rs. 1,200
- ▶ Rs. 800
- ▶ Rs. 600
- ▶ Rs. 1,000

Reference:

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Present value of perpetuity=C/r

Present value of perpetuity=60/0.05

Present value of perpetuity= 1200

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

How much should you pay for a bond with Rs.1,000 face value, a 10 percent coupon rate, and seven years to maturity if your appropriate discount rate is 8 percent and interest is paid annually? (Answers are rounded to the nearest dollar)

- ▶ Rs.560
- ▶ Rs.1,000
- ▶ Rs.903
- ▶

Reference:

$$\text{Bond value} = \left[C \times \frac{1 - \frac{1}{(1+r)^n}}{r} \right] + \left[\frac{\text{Par}}{(1+r)^n} \right]$$

Paper No. 5

MIDTERM EXAMINATION

Fall 2009

FIN622- Corporate Finance (Session - 4)

Solved By Hafiz Salman Majeed

Time: 60 min

Marks: 50

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

Which of the following statements is TRUE regarding Profitability Index?

- ▶ It ignores time value of money
- ▶ It ignores future cash flows
- ▶ **It ignores the scale of investment**
- ▶ It ignores return on investment

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

A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

- ▶ By increasing the amount of borrowings
- ▶ By shifting short-term to long-term debt
- ▶ By shifting long-term to short-term debt
- ▶ **By selling the common stock**

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#7

Note: Solve these papers by yourself

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

A public limited Company had sales of Rs.2 million this year. The marketing manager expects sales to grow at a 10 percent compound annual rate over the next 10 years. On this basis, which of the following is the closest amount of sales in 10 years?

▶ **Rs.5,187,485.**

▶ Rs.2,593,722.

▶ Rs.4,622,885.

▶ Rs.5,081,309

Reference:

$$Fv = PV(1+i)^n$$

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

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

▶ Rs.22,863

▶ Rs.35,097

▶ **Rs.39,310**

▶ Rs.25,151

Reference:

Calculations:-

$$fv = p * (((1 + i) ^ n - 1) / i) * (1 + i)$$

$$P = 2000$$

$$I = 0.12$$

$$N = 10 \text{ years}$$

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

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

▶ **Sensitivity Analysis**

▶ Fundamental Analysis

▶ Technical Analysis

▶ Trend Analysis

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

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.

▶ **Degree of operating leverage**

▶ Degree of profit leverage

▶ Degree of total leverage

▶ Degree of financial leverage

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Reference:

Degree of Operating Leverage -- The percentage change in a firm's operating profit (EBIT) resulting from a 1 percent change in output (sales).

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

A project would be financially feasible in which of the following situations?

- ▶ If Internal Rate of Return of a project is greater than zero
- ▶ If Net Present Value of a project is less than zero
- ▶ If the project has Profitability Index less than one
- ▶ **If the project has Profitability Index greater than one**

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

Which of the following is determined by variance of an investment's returns?

- ▶ **Volatility of the rates of return.**
- ▶ Probability of a negative return.
- ▶ Historic return over long periods.
- ▶ Average value of the investment.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter11/chapter_quiz.html

Question#8

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

Which of the following conditions, if exist, will make the diversification of stocks more effective?

- ▶ Securities contained in a portfolio are positively correlated
- ▶ **Securities contained in a portfolio are negatively correlated**
- ▶ Securities contained in a portfolio have high market values
- ▶ Securities contained in a portfolio have low market values

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

Which one of the following terms refers to the variability of return on stocks or portfolios not explained by general market movements, and is avoidable through proper diversification?

- ▶ Total risk
- ▶ Systematic risk
- ▶ **Unsystematic risk**
- ▶ Market risk

Reference:

Unsystematic Risk is the variability of return on stocks or portfolios not explained by

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general market movements. It is avoidable through diversification.

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

Suppose a stock is selling today for Rs.40 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.44.00. what is the rate of return on this stock?

- ▶ 12%
- ▶ 13%
- ▶ 14%

▶ **15%**

Reference:

Expected Returns:

Total Return = Dividends + Capital Gains

$$= D1 + (P1 - P0) / P0$$

$$= 2 + (44 - 40) / 40$$

$$= 2 + 4 / 40$$

$$= 6/40$$

$$= 0.15 * 100$$

$$= 15\%$$

Question No: 12 (Marks: 1) - Please choose one

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

- ▶ Normal stocks
- ▶ Aggressive stocks
- ▶ **Defensive stocks**
- ▶ Income stocks

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

What will be the risk premium if the market portfolio has an expected return of 10% and the risk free rate is 4%?

- ▶ 4%
- ▶ 5%
- ▶ **6%**
- ▶ 7%

Reference:

Market risk premium, $(E_m - R_f)$

Market risk premium, $(10\% - 4\%)$

Market risk premium, (6%)

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

A firm had an interest expense of Rs.400,000 on its outstanding debt during the financial

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year 2006-2007. If the firm marginal tax rate is 40%, what was the total tax savings of the firm during the period 2006-2007?

- ▶ Rs.150,000
- ▶ **Rs.160,000**
- ▶ Rs.170,000
- ▶ Rs.180,000

Reference:

$$400000 * 40 / 100 = 160000$$

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

In which of the following dividend policies, the amount of dividend is relatively fixed?

- ▶ **Constant payout ratio policy**
- ▶ Hybrid dividend policy
- ▶ Residual dividend policy
- ▶ Stable dividend policy

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

Which of the following is a proposition of Miller and Modigliani theory of Capital structure?

- ▶ **Value of a firm is independent of its capital structure**
- ▶ Value of a firm is independent of its level of debt
- ▶ Value of a firm is dependent of its cost of capital
- ▶ Value of a firm is independent on its level of equity finances

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

Which of the following companies may be considered as a Pure Play in the beverages industry in Pakistan?

- ▶ **Coca Cola**
- ▶ Pepsi
- ▶ Shezan
- ▶ Nestlé

Reference:

Coca-Cola is an example of a pure play in this context because it retails only beverages

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

Which of the following is a disadvantage of Capital Asset Pricing Model?

- ▶ It considers market risk
- ▶ It can be used for listed companies
- ▶ It can be used for non-listed companies
- ▶ **It is based on past data**

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

Which of the following methods would be most suitable for calculating the return on stocks of a non-listed company?

▶ **Dividend Growth Model**

- ▶ Capital Asset Pricing Model
- ▶ Security Market Line
- ▶ Characteristics Line

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

What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?

- ▶ It raises the break-even level.
- ▶ It reduces the break-even level.
- ▶ **It has no effect on the break-even level.**
- ▶ This cannot be determined without knowing the length of the investment horizon.

Reference:

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter10/chapter_quiz.html

Question#10

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

Which of the following statements is **TRUE** regarding Balance Sheet of a firm?

- ▶ It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
- ▶ It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
- ▶ **It shows the firm's financial position at a specific point in time.**
- ▶ It summarizes the firm's revenues and expenses over an accounting period.

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

Which of the following would be a consequence of a high Inventory Turnover Ratio?

- ▶ **Low level of inventory and frequent stock-outs**
- ▶ Seasonal elements peculiar to the business
- ▶ Efficient inventory management
- ▶ Any of the given option

Reference:

http://books.google.com.pk/books?id=fWG2_eTKbM4C&pg=PA40&lpg=PA40&dq=%22high+Inventory+Turnover%22+consequence&source=bl&ots=cgQ5LgPQzT&sig=fjcMtszlSYD2-

[KXKRXpp_QB6ugM&hl=en&ei=7kEBTee0LoOnrAfk86CRDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBsQ6AEwAQ#v=onepage&q=%22high%20Inventory%20Turnover%22%20consequence&f=false](http://books.google.com.pk/books?id=fWG2_eTKbM4C&pg=PA40&lpg=PA40&dq=%22high+Inventory+Turnover%22+consequence&source=bl&ots=cgQ5LgPQzT&sig=fjcMtszlSYD2-KXKRXpp_QB6ugM&hl=en&ei=7kEBTee0LoOnrAfk86CRDw&sa=X&oi=book_result&ct=result&resnum=2&ved=0CBsQ6AEwAQ#v=onepage&q=%22high%20Inventory%20Turnover%22%20consequence&f=false)

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

Short-term creditors would be most interested in which of the following ratios of a firm?

- ▶ Coverage ratios
- ▶ **Liquidity ratios**
- ▶ Profitability ratios
- ▶ Debt ratios

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

What are the earnings per share (EPS) for a company that earned Rs.100,000 last year in after-tax profits, has 200,000 common shares outstanding, and Rs.1.2 million in retained earnings at the year end?

- ▶ Rs. 6.50
- ▶ Rs. 6
- ▶ Rs. 100,000
- ▶ **Rs. 0.50**

Reference:

***Earning Per Share (EPS):**

= Net Income / Average Number of Common Shares Outstanding

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

Which of the following statements is **CORRECT** with respect to common-size income and balance sheet statements?

- ▶ They show how total sales change over time, but not total assets.
- ▶ **They show how both total sales and total assets change over time.**
- ▶ They provide no information about how total assets or total sales change over time.
- ▶ They show how total assets change over time, but not total sales.

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

Which one of the following statements is **TRUE** regarding Present Value of an amount to be received at some future date?

- ▶ It increases as the years to receipt increases
- ▶ It remains unaffected as the years to receipt increases
- ▶ **It decreases as the years to receipt increases**
- ▶ None of the given options

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

How many years will it take for Rs.152,000 to grow to be Rs. 405,000 if it is invested in an account with an annual interest rate of 10%?

- ▶ 13.68
- ▶ 8.23
- ▶ **10.28**
- ▶ Cannot be calculated from the given data

Reference:

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<http://webcache.googleusercontent.com/search?q=cache:wZYpkI18Q4EJ:www.pageout.net/user/www/r/k/rkiss/cquest6.%28A%29.doc+How+many+years+will+it+take+for+Rs.152,000+to+grow+to+be+Rs.+405,000+if+it+is+invested+in+an+account+with+an+annual+interest+rate+of+10%25%3F&cd=6&hl=en&ct=clnk&gl=pk>

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

If you deposit Rs. 12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

- ▶ Rs. 82,168.44
- ▶ Rs. 71,450.82
- ▶ **Rs. 768,901.12**
- ▶ Rs. 668,609.67

Calculations:-

$$fv = p * (((1 + i) ^ n - 1) / i) * (1 + i)$$

$$P = 12000$$

$$i = 15\%$$

$$n = 16$$

$$fv = p * (((1 + 0.15) ^ 16 - 1) / 0.15) * (1 + 0.15)$$

$$12000 * (((1.15) ^ 16 - 1) / 0.15) * (1.15)$$

$$12000 * (((9.357620873 - 1) / 0.15) * (1.15))$$

$$12000 * (((8.357620873) / 0.15) * (1.15))$$

$$12000 * (55.71747249) * (1.15)$$

$$12000 * (64.07509336)$$

$$768901$$

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

Which of the following types of bonds pays no annual interest to the holder, but is sold at discount below the par value?

- ▶ An original maturity bond
- ▶ A floating rate bond
- ▶ A fixed maturity date bond
- ▶ **A zero coupon bond**

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

Which of the following is the rate of return earned on a bond if held till maturity?

- ▶ Yield-to-call
- ▶ Coupon payment
- ▶ **Yield-to-maturity**
- ▶ Sinking fund yield

Reference:

Yield To Maturity (YTM)

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Sum total of the annual effective rate of return earned by an owner of a bond if that bond is held until its maturity date.

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

Which one of the following statements best describes the relationship between market interest rates and bond prices?

- ▶ Market interest rates and bond prices move in the same direction
- ▶ **Market interest rates and bond prices move in opposite directions**
- ▶ Sometimes move in the same direction, sometimes in opposite directions
- ▶ Market interest rate and bond prices have no relationship with each other

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

When the market's required rate of return for a particular bond is much less than its coupon rate, the bond will be selling at which one of the following?

- ▶ **At premium**
- ▶ At discount
- ▶ At par
- ▶ Cannot be determined without more information

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

Which of the following techniques of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

- ▶ Technical Analysis
- ▶ **Fundamental Analysis**
- ▶ Constant Growth Model
- ▶ No Growth Model

Reference:

The biggest part of fundamental analysis involves delving into the financial statements. Also known as quantitative analysis

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

In which of the following situations market price of a security will move down?

- ▶ **When market price of the security is above the intrinsic value of the security**
- ▶ When market price of the security is equal to the intrinsic value of the security
- ▶ When market value of the security is equal to the face value of the security
- ▶ When market price of the security is below the intrinsic value of the security

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

Which of the following could be used to calculate the cost of common equity?

- ▶ Interpolation method
- ▶ Dividend discount model
- ▶ YTM (Yield-to-Maturity) method
- ▶ **Capital structure valuation**

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Reference:

Page#59

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

Which of the following is a long-term source of financing for a firm?

▶ **Corporate bonds**

- ▶ Money market instruments
- ▶ Trade credit
- ▶ Accounts payables

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

Which of the following focuses on long-term investment decision-making process?

▶ Working Capital Management

▶ **Capital Budgeting**

- ▶ Cash Budgeting
- ▶ None of the given options

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

Since the capital budgeting techniques use cash flows instead of accounting flows, therefore, the financial manager must add back which one of the following to the analysis?

- ▶ The cost of fixed assets
- ▶ The cost of accounts payable
- ▶ Investments

▶ **Depreciation**

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#2

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

Which of the following capital budgeting methods focuses on firm's liquidity?

▶ Internal Rate of Return

▶ **Payback method**

- ▶ Net Present Value
- ▶ None of the given options

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#3

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

When faced with mutually exclusive options, which project should be accepted under the

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'Payback Method'?

- ▶ The one with the longest payback period
- ▶ The one with the shortest Payback period
- ▶ **It doesn't matter because the payback method is not theoretically correct**
- ▶ None of the given options

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#4

Paper No. 6

MIDTERM EXAMINATION
Spring 2009

FIN622- Corporate Finance (Session - 1)

Solved By Hafiz Salman Majeed

Question No: 1 (Marks: 1) - Please choose one
In which one of the following markets the bonds of a Corporation shall be traded now who were issued 10 years back?

Primary market

Secondary market

Money Market

All of the above

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

Palo Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. What do these ratios tell about this company?

The company will not experience any difficulty with its creditors

The company has less liquidity than other firms in the industry

The company will be viewed as having high creditworthiness

The company has greater than average financial risk when compared to other firms in its industry

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#8

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

A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

By increasing the amount of borrowings

By shifting short-term to long-term debt

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By shifting long-term to short-term debt

By selling the common stock

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc6.html>

Question#7

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

If a creditor wants to know about the bill payment status of a potential customer, the creditor could look at which one of the following ratios?

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

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

Which one of the following values refers to the amount of money that could be realized if an asset or group of assets is sold separately from its operating organization?

Book value

Market value

Liquidation value

Intrinsic value

Reference:

http://wps.pearsoned.co.uk/ema_uk_he_wachowicz_fundfinman_12/26/6678/1709775.cw/content/index.html

Question#10

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

The present value of Rs.100 per year received for 10 years discounted at 8 percent is closest to which of the following amounts?

Rs.177.

Rs.362.

Rs.425.

Rs.671.

Reference:

$$PV_{oa} = PMT [(1 - (1 / (1 + i)^n)) / i]$$

$$PV_{oa} = 100 [(1 - (1 / (1 + 0.08)^{10})) / 0.08]$$

$$PV_{oa} = 100 [(1 - (1 / (1.08)^{10})) / 0.08]$$

$$PV_{oa} = 100 [(1 - (1 / (2.158924997))) / 0.08]$$

$$PV_{oa} = 100 [(1 - 0.463193488) / 0.08]$$

$$PV_{oa} = 100 [0.536806512 / 0.08]$$

$$PV_{oa} = 100 [6.7100]$$

$$P_{voa} = 671$$

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

Which one of the following is a long-term contract under which a borrower agrees to make payments of interest and principal on specific dates?

Common stock.

Preferred stock

Equity contract.

Bond.

Reference:

http://books.google.com.pk/books?id=GF_EO-ZxyM4C&pg=PA31&lpg=PA31&dq=borrower+agrees+to+make+payments+of+interest+and+principal+on+specific+dates&source=bl&ots=3qL11vfkUF&sig=4mqxqVxNQRie6NwTm7JOto5pAKg&hl=en&ei=lnMBTaHVE4eyrAfwtKyRDw&sa=X&oi=book_result&ct=result&resnum=1&ved=0CBQQ6AEwAA#v=onepage&q=borrower%20agrees%20to%20make%20payments%20of%20interest%20and%20principal%20on%20specific%20dates&f=false

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

Which of the following is the main source of income for the buyer of a zero-coupon bond?

Price appreciation.

A rate of return equal to zero over the life of the bond.

Variable dividends instead of a fixed interest payment annually.

All interest payments in one lump sum at maturity.

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

If the intrinsic value of a stock is greater than its market value, then which of the following is a reasonable conclusion?

The stock has a low level of risk.

The stock offers a high dividend payout ratio.

The market is undervaluing the stock.

The market is overvaluing the stock.

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc4.html>

Question#2

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

If a bond sells at a high premium, then which of the following relationships hold true? (P_0 represents the price of a bond and YTM is the bond's yield to maturity.)

$P_0 < \text{par}$ and $\text{YTM} > \text{the coupon rate}$.

$P_0 > \text{par}$ and $\text{YTM} > \text{the coupon rate}$.

$P_0 > \text{par}$ and $\text{YTM} < \text{the coupon rate}$.

$P_0 < \text{par}$ and $\text{YTM} < \text{the coupon rate}$.

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

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

14%

13%

12%

10%

Question No: 12 (Marks: 1) - Please choose one

Which of the following statements best describes the term Market Correction?

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market

Market correction refers to the situation where shares' intrinsic values becomes equal to face values

Market Correction refers to the situation when there is a boom in the economy

Market Correction refers to the situation where inflation rate is above the market interest rate

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

Which of the following statements is Correct regarding the fundamental analysis?

Fundamental analysts use only Economic indicators to evaluate a stock

Fundamental analysts use only financial information to evaluate a company's stocks

Fundamental analysts use financial and non -financial information to evaluate a company's stocks

Fundamental analysts use only non -financial information to evaluate a company's stocks

Reference:

Page 24

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

Which of the following statements is applied to weighted average cost of capital (WACC)?

It is used as an evaluation tool

It is based on the present cost obligation's of the firm

It is the cost of long-term investment

It is the cost of maintaining optimal level of current assets

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

In which of the following situations a project is acceptable?

When a project has conventional cash flows patterns

When a project has a non-conventional cash flow pattern

When a project has a discounted rate higher than the inflation rate

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When a project has a positive net present value

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

Which of the following capital budgeting methods focuses on firm's liquidity?

Payback method

Net Present Value

Internal Rate of Return

None of the given options

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#3

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

When faced with mutually exclusive option, which project should be accepted under the 'Payback Method'?

The one with the longest payback period.

The one with the shortest Payback period.

It doesn't matter because the payback method is not theoretically correct.

None of the given options.

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#4

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

According to the reinvestment rate assumption, which method of capital budgeting assumes that the cash flows are reinvested at the project's rate of return?

Payback period

Net present value

Internal rate of return

None of the given options

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

Which of the following would lower a firm's operating break-even point?

An increase in the cost of goods sold

An increase in selling price

An increase in wages paid to employees

An increase in total sales

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

A project would be financially feasible in which of the following situations?

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If Internal Rate of Return of a project is greater than zero

If Net Present Value of a project is less than zero

If the project has Profitability Index less than one

If the project has Profitability Index greater than one

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

Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on this stock?

2%

3%

4%

5%

Reference:

Dividend yield = Annual dividends per share / price per share

= 2 / 35

= 0.057

= 5%

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

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

Normal stocks

Aggressive stocks

Defensive stocks

Income stocks

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

What will be the risk premium if the market portfolio has an expected return of 10% and the risk free rate is 4%?

4%

5%

6%

7%

Reference:

Market risk premium, (Erm – Rf)

Market risk premium, (10% – 4%)

Market risk premium, (6%)

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

In which of the following conditions a stock is said to be undervalued?

If the stock has market value less than the expected value

If the stock has market value more than the expected value

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If the stock has market value equal to the expect value
If the stock has market value more that intrinsic value

Question No: 25 (Marks: 1) - Please choose one
Which of the following is included in the cost of capital of a firm?
Cost of sales
Depreciation cost
Depletion cost
Cost of retained earnings

Question No: 26 (Marks: 1) - Please choose one
Suppose a firm has weighted average cost of capital (WACC) of 15% based on the market values of Debt and equity. Which of the following is the suitable discount rate to be used by the firm to evaluate financial viability of its investment projects?
10%
12%
13%
15%

Question No: 27 (Marks: 1) - Please choose one
Which of the following statements is TRUE regarding a firm that is totally (100%) financed by equity?
Its Return on Equity (ROE) is equal to its Return on Assets (ROA)
Its Return on Equity (ROE) is less than its Return on Assets (ROA)
Its Return on Equity (ROE) is greater than its Return on Assets (ROA)
Its Return on Equity (ROE) and Return on Assets (ROA) are zero

Question No: 28 (Marks: 1) - Please choose one
A Levered firm has a lower weighted average cost of capital as compare to an Un-levered firm because of which of the following?
Interest tax shield
Low level of financial risk
Low level of business risk
Low level of systematic risk

Question No: 29 (Marks: 1) - Please choose one
Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?
Stock Dividend
Cum Dividend
Ex Dividend

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Extra Dividend

Question No: 30 (Marks: 1) - Please choose one
Which of the following is a long-term source of financing for a firm?

Corporate bonds

Money market instruments

Trade credit

Accounts payables

Paper No. 7

MIDTERM EXAMINATION
Spring 2009

FIN622- Corporate Finance (Session - 1)

Solved By Hafiz Salman Majeed

Question No: 1 (Marks: 1) - Please choose one
Which of the following statements is TRUE regarding Profitability Index?

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

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

Which one of the following is an offering in which the shares of a company are offered to a limited number of investors?

Initial Public Offering

Private Placement

Direct Public Offering

Primary Offering

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

Following are the disadvantages of the Corporate Form of an organization EXCEPT
Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization.

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc2.html>

Question#6

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

Suppose that a corporation of which you are a shareholder has just gone bankrupt. Its liabilities are far in excess of its assets. How much of your investment would you get back?

A proportionate share of bondholder claims based on the number of common shares that you own.

A proportional share of all creditor claims based on the number of common shares that you own.

An amount that could, at most, equal what you originally paid for the shares of common stock in the corporation.

Nothing

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc2.html>

Question#4

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

Which of the following is a limitation of the Times Interest Earned Ratio?

It does not consider earnings of the company

It does not consider fixed financial payments other than interest

It uses earnings before interest and taxes which does not represent all of the cash flow available to service debt

It does not consider interest expense of the company

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

If a creditor wants to know about the bill payment status of a potential customer, the creditor could look at which one of the following ratios?

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

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

For financial statement purposes, the accounting value of fixed assets is based upon which of the following?

It is based on their estimated liquidation value.

It is based on their relative importance to the company.

It is based on their actual purchase price.

It is based on their current market price.

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

Which of the following transactions affects the acid-test ratio?

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Receivables are collected.

Inventory is liquidated for cash.

New common stock is sold and used to retire a debt issue.

A new common stock issue is sold and equipment purchased.

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

Which of the following refers to the value at which an asset is carried on a balance sheet?

Book Value

Market Value

Fair Value

Liquidation Value

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

Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end of four years?

Rs.9,624.

Rs.10,208.

Rs.9,728.

Rs.10,880

Reference:

$$FV = PV(1+i)^n$$

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

What approximate annual interest rate would you have to earn in order to double your money in six years? (please choose the nearest figure)

16 percent

7 percent

10 percent

12 percent

Reference:

$$100(1.12)^6 = 197.38$$

Question No: 12 (Marks: 1) - Please choose one

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Rs.325

Rs.1,299

Rs.504

Rs.609

Reference:

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$$FV = PV(1+i)^n$$

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

The present value of Rs.100 per year received for 10 years discounted at 8 percent is closest to which of the following amounts?

Rs.177.

Rs.362.

Rs.425.

Rs.671.

Reference:

$$PV_{oa} = PMT [(1 - (1 / (1 + i)^n)) / i]$$

$$PV_{oa} = 100 [(1 - (1 / (1 + 0.08)^{10})) / 0.08]$$

$$PV_{oa} = 100 [(1 - (1 / (1.08)^{10})) / 0.08]$$

$$PV_{oa} = 100 [(1 - (1 / (2.158924997))) / 0.08]$$

$$PV_{oa} = 100 [(1 - 0.463193488) / 0.08]$$

$$PV_{oa} = 100 [0.536806512 / 0.08]$$

$$PV_{oa} = 100 [6.7100]$$

$$P_{voa} = 671$$

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

When the market's required rate of return for a particular bond is much less than its coupon rate, the bond will be selling at which one of the following?

At premium.

At discount.

Cannot be determined without more information.

At face value.

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

If a bond sells at a high premium, then which of the following relationships hold true? (P_0 represents the price of a bond and YTM is the bond's yield to maturity.)

$P_0 < \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM < \text{the coupon rate}$.

$P_0 < \text{par}$ and $YTM < \text{the coupon rate}$.

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

An investor would be exposed to which of the following risks, if he may have to sell a bond prior to maturity and interest rates have risen since the bond was purchased?

The coupon effect risk.

Interest rate risk.

Inflation risk.

Unique risk

Reference:

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<http://web.utk.edu/~jwachowi/mcquiz/mc4.html>

Question#4

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

Which of the following is reflected by the price of a share of common stock?

Earnings after tax divided by the number of shares outstanding.

The board of directors' assessment of the intrinsic value of the firm.

The book value of the firm's assets less the book value of its liabilities.

The market's evaluation of a firm's present and future performance

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

You are considering buying common stock in Grow On, Inc. The firm yesterday paid a dividend of \$7.80. You have projected that dividends will grow at a rate of 9.0% per year indefinitely. If you want an annual return of 24.0%, what is the most you should pay for the stock now?

\$52.00

\$56.68

\$32.50

\$35.43

Solution:-

$$P_0 = D_1(1+g) / (ror - g)$$

$$P_0 = 7.8(1.09) / (0.24 - 0.09)$$

$$P_0 = 8.502/0.15$$

$$P_0 = 56.68$$

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

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

14%

13%

12%

10%

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

Which one of the following costs should be ignored, while evaluating the financial viability of a project?

Initial cost

Equipment cost

Cost of capital

Sunk cost

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

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When faced with mutually exclusive option, which project should be accepted under the 'Payback Method'?

The one with the longest payback period.

The one with the shortest Payback period.

It doesn't matter because the payback method is not theoretically correct.

None of the given options.

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#4

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

Which of the following capital budgeting methods states the project return as a percentage?

Payback period

Net present value

Internal Rate of Return

None of the given options

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

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Sensitivity Analysis

Fundamental Analysis

Technical Analysis

Trend Analysis

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

A firm with 60% of sales going to variable costs, \$1.5 million fixed costs, and \$500,000 depreciation would show what accounting profit with sales of \$3 million? (Ignore taxes)

Zero loss

\$370,000 loss

\$666,667 loss

\$800,000 loss

Reference:

| | |
|----------------|---------------------------|
| Revenues | \$3,000,000 |
| Variable costs | -1,800,000 (60% of sales) |
| Fixed costs | -1,500,000 |
| Depreciation | <u>-500,000</u> |
| Loss | \$800,000 |

http://highered.mcgraw-hill.com/sites/0073382302/student_view0/chapter10/chapter_quiz.html

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Question#12

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

Which of the following best illustrates the problem imposed by capital rationing?

Accepting projects with the highest NPVs first

Accepting projects with the highest IRRs first

Bypassing projects that have positive NPVs

Bypassing projects that have positive IRRs

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

Which of the following statements applies to Security Market Line (SML)?

Security Market Line (SML) shows the relationship between expected rate of return and required rate of return of a security.

Security Market Line (SML) shows the relationship between Beta and market value of a security.

Security Market Line (SML) shows the relationship between required rate of return and beta coefficient of a security.

Security Market Line (SML) shows the relationship between Market value and face value of a security.

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

Which of the following refers to a stock issuance process where a company offers its shares to a limited number of investor?

Initial Public Offering

Private Placement

Direct Public Offering

Primary Offering

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

A Pure Play method of selecting a discount rate is most suitable in which of the following situations?

When the intended investment project has a Non-conventional stream of cash flows

When the intended investment project is a replacement project

When the intended investment project belongs to industry other than the firms operating in

When the intended investment project has a conventional stream of cash flows

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

Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?

Stock Dividend

Cum Dividend

Ex Dividend

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Extra Dividend

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

Which of the following transactions would occur in a primary financial market?

Initial public offering

Buying mutual funds certificates

Selling old shares

Buying bonds issued in previous year

Paper No. 8

MIDTERM EXAMINATION

Spring 2009

FIN622- Corporate Finance (Session - 2)

Solved By Hafiz Salman Majeed

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

In which one of the following markets the bonds of a Corporation shall be traded now who were issued 10 years back?

Primary market

Secondary market

Money Market

All of the above

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

Following are amongst the three main areas of Finance EXCEPT:

Financial institutions

Investments

Accounting

Financial management

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

Which one of the following types of companies enjoys the 'Limited Liability'?

A general partnership.

A corporation.

A sole proprietorship.

None of the given options.

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

A company can improve (lower) its debt-to-total assets ratio by doing which of the following?

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By increasing the amount of borrowings
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By selling the common stock

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

What are the earnings per share (EPS) for a company that earned Rs.100,000 last year in after-tax profits, has 200,000 common shares outstanding, and Rs.1.2 million in retained earnings at the year end?

Rs. 6.50
Rs. 6
Rs. 100,000
Rs. 0.50

Reference:

***Earning Per Share (EPS):**

= Net Income / Average Number of Common Shares Outstanding

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

Which of the following refers to the value at which an asset is carried on a balance sheet?

Book Value
Market Value
Fair Value
Liquidation Value

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

In 3 years you are to receive Rs.5,000. What will be the effect on the present value of that future amount to you if the interest rates increase suddenly?

Remain unchanged
Rise
Fall
Can not be determined

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

Which of the following change will occur if a bond's yield-to-maturity increases, keeping other factors constant?

Its price will rise
Its price will remain unchanged
Its price will fall.
Can not be determined

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

A 30-year corporate bond issued in 1985 would now be traded in which of the

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following markets?

Primary capital market.

Primary money market.

Secondary money market.

Secondary capital market.

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

When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at which of the following?

At discount

At premium

At par value

At indeterminate price

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

If the intrinsic value of a stock is greater than its market value, then which of the following is a reasonable conclusion?

The stock has a low level of risk.

The stock offers a high dividend payout ratio.

The market is undervaluing the stock.

The market is overvaluing the stock.

Reference:

<http://web.utk.edu/~jwachowi/mcquiz/mc4.html>

Question#2

Question No: 12 (Marks: 1) - Please choose one

A person has invested some of its personal spare funds in the common stocks of a public limited company. Which of the following would be the total return for this person on his common stocks?

Dividend per share and market interest rate.

Dividend yield and capital gains yield.

Earning per share and dividend per share

Market interest rate and dividend yield.

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

Which one of the following costs should be ignored, while evaluating the financial viability of a project?

Initial cost

Equipment cost

Cost of capital

Sunk cost

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

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Which of the following statements best describes the term Market Correction?

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market

Market correction refers to the situation where shares' intrinsic values becomes equal to face values

Market Correction refers to the situation when there is a boom in the economy

Market Correction refers to the situation where inflation rate is above the market interest rate

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

Which of the following statements is Correct regarding the fundamental analysis?

Fundamental analysts use only Economic indicators to evaluate a stock

Fundamental analysts use only financial information to evaluate a company's stocks

Fundamental analysts use financial and non -financial information to evaluate a company's stocks

Fundamental analysts use only non -financial information to evaluate a company's stocks

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

Since the capital budgeting techniques use cash flows instead of accounting flows, therefore, the financial manager must add back which one of the following to the analysis?

The cost of fixed assets

The cost of accounts payable

Investments

Depreciation

Reference:

http://highered.mcgraw-hill.com/sites/0073382388/student_view0/chapter12/multiple_choice_quiz.html

Question#2

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

According to the reinvestment rate assumption, which method of capital budgeting assumes that the cash flows are reinvested at the project's rate of return?

Payback period

Net present value

Internal rate of return

None of the given options

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

What is the Net Present Value (NPV) of a project that costs \$100,000 and returns \$45,000 annually for three years if the opportunity cost of capital is 14%?
\$3,397.57

\$4,473.44

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\$16,100.00

\$35,000.00

Reference:

$$NPV = -I_0 + CF_1/(1+i)^1 + CF_2/(1+i)^2 + CF_3/(1+i)^3$$

$$= -100000 + 45000/(1.14) + 45000/(1.14)^2 + 45000/(1.14)^3$$

$$= -100000 + 39474 + 34626 + 30374$$

$$= 4474$$

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

Market demand allowed a company, to raise its price by 20% to \$60. What is the new level of break-even revenues if fixed charges including depreciation are \$1 million and variable costs were 70% of the old price?

\$2,000,000

\$2,400,000

\$2,857,143

\$3,333,333

Reference:

$$\text{old price} = \frac{\$60}{1.2} = \$50$$

therefore, variable costs = \$50 x .7 = \$35, which equals 58.33% of new price.

$$\text{new break-even} = \frac{\$1 \text{ million}}{.4167} = \$2,400,000$$

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

Which of the following best illustrates the problem imposed by capital rationing?

Accepting projects with the highest NPVs first

Accepting projects with the highest IRRs first

Bypassing projects that have positive NPVs

Bypassing projects that have positive IRRs

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

Which of the following is determined by variance of an investment's returns?

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment.

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

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Which one of the following terms refers to the variability of return on stocks or portfolios, associated with changes in return on the market as a whole?

Unsystematic risk

Unique risk

Systematic risk

Company specific risk

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

Suppose a stock is selling today for Rs.40 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.44.00. what is the rate of return on this stock?

12%

13%

14%

15%

Reference:

Expected Returns:

Total Return = Dividends + Capital Gains

= $D_1 + (P_1 - P_0) / P_0$

= $2 + (44 - 40) / 40$

= $2 + 4 / 40$

= $6/40$

= $0.15 * 100$

= 15%

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

Suppose a stock is selling today for Rs.60 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.66.00. what is the capital gain yield on the stock?

7%

8%

9%

10%

Reference:

Capital Gain Yield = $(P_n - P_0) / P_0$

Capital Gain Yield = $(66 - 60) / 60$

Capital Gain Yield = $6/60 = 0.1 * 100$

Capital Gain Yield = 10%

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

If the common stocks of a company have beta value less than 1, then such stocks refer to which of the following?

Normal stocks

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Aggressive stocks

Defensive stocks

Income stocks

Question No: 26 (Marks: 1) - Please choose one
Which of the following statements applies to capital asset pricing model?
It tells us about the changes in the stock market index

It tells us about specific risk of a security

It tells us about specific risk of a portfolio

It tells us that how risk is rewarded in the market

Question No: 27 (Marks: 1) - Please choose one
Which of the following is included in the cost of capital of a firm?

Cost of sales

Depreciation cost

Depletion cost

Cost of retained earnings

Question No: 28 (Marks: 1) - Please choose one
Suppose a firm has weighted average cost of capital (WACC) of 15% based on the market values of Debt and equity. Which of the following is the suitable discount rate to be used by the firm to evaluate financial viability of its investment projects?

10%

12%

13%

15%

Question No: 29 (Marks: 1) - Please choose one
Which of the following best define the term 'Capital Structure'?

The proportion of debt and equity capital used by a firm

The proportion of long-term liabilities used by a firm

The proportion of equity used by a firm

The proportion of short-term bank loan used by a firm

Question No: 30 (Marks: 1) - Please choose one
In which of the following dividend policies, the amount of dividend is relatively fixed?

Constant payout ratio policy

Hybrid dividend policy

Residual dividend policy

Stable dividend policy

Question # 1 of 15 (Start time: 05:59:47 PM) Total Marks: 1

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Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Question # 2 of 15 (Start time: 06:01:15 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

$$18 - 8 = 10$$

$$50000/10 = 5000$$

Question # 3 of 15 (Start time: 06:01:46 PM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Question # 4 of 15 (Start time: 06:03:21 PM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

40, 12

20, 12

40, 3

20, 6

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Question # 5 of 15 (Start time: 06:03:59 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

Question # 6 of 15 (Start time: 06:05:26 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

Question # 7 of 15 (Start time: 06:06:09 PM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Question # 8 of 15 (Start time: 06:07:36 PM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Question # 9 of 15 (Start time: 06:08:05 PM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

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Lowering direct cost

Increasing variable cost

Increasing direct cost

Lowering sales price

Question # 10 of 15 (Start time: 06:08:55 PM) Total Marks: 1

Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

Select correct option:

S-corporation.

Partnership.

Corporation

Sole proprietorship

Question # 11 of 15 (Start time: 06:09:40 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 12 of 15 (Start time: 06:10:01 PM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 13 of 15 (Start time: 06:10:49 PM) Total Marks: 1

Which of the following reason justifies the need for financial statement analysis?

Select correct option:

It will help improve capital budgeting process of the company

It will help improve future planning

It will help improve accounting policies of the company

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It will help improve purchasing polices of the company

Question # 14 of 15 (Start time: 06:12:21 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

Question # 15 of 15 (Start time: 06:13:45 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 1 of 15 (Start time: 06:27:20 PM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options

Question # 2 of 15 (Start time: 06:28:03 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

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Question # 3 of 15 (Start time: 06:28:25 PM) Total Marks: 1

Which of the following reflects the real cost of funds to the borrowers and the real yield to the lenders?

Select correct option:

Real interest rate

- Nominal interest rate
- Annual interest rate
- Quarterly interest rate

Question # 4 of 15 (Start time: 06:29:08 PM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 6 of 15 (Start time: 06:30:45 PM) Total Marks: 1

Which one of the following statements describes the relationship between Interest rates and bond prices?

Select correct option:

- Move in the same direction.
- Move in opposite directions**
- Sometimes move in the same direction, sometimes in opposite directions
- Have no relationship with each other (i.e., they are independent).

Question # 7 of 15 (Start time: 06:31:24 PM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

- The one with the largest Internal Rate of Return.**
- The one with the smallest Internal Rate of Return.
- The one with the highest Net Present Value at the firm's cost of capital.
- None of the given options

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Question # 8 of 15 (Start time: 06:32:41 PM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

Question # 9 of 15 (Start time: 06:33:26 PM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

Question # 10 of 15 (Start time: 06:33:54 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

Question # 11 of 15 (Start time: 06:34:18 PM) Total Marks: 1

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

Select correct option:

A zero growth common stock.

A positive growth common stock

A short-term bond

An option.

Question # 12 of 15 (Start time: 06:35:07 PM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

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Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 13 of 15 (Start time: 06:36:14 PM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

Growth stock

Income stock

Aggressive stock

Defensive stock

Question # 14 of 15 (Start time: 06:37:02 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 15 of 15 (Start time: 06:37:45 PM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 1 of 15 (Start time: 08:03:55 PM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

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Question # 2 of 15 (Start time: 08:04:44 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

Question # 3 of 15 (Start time: 08:04:53 PM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

\$82,168.44

\$71,450.82

\$768,901.12

\$668,609.67

Calculations:-

$$fv = p * (((1 + i) ^ n - 1) / i) * (1 + i)$$

$$P = 12000$$

$$i = 15\%$$

$$n = 16$$

$$fv = p * (((1 + 0.15) ^ 16 - 1) / 0.15) * (1 + 0.15)$$

$$12000 * (((1.15) ^ 16 - 1) / 0.15) * (1.15)$$

$$12000 * (((9.357620873 - 1) / 0.15) * (1.15))$$

$$12000 * (((8.357620873) / 0.15) * (1.15))$$

$$12000 * (55.71747249) * (1.15)$$

$$12000 * (64.07509336)$$

$$768901$$

Question # 4 of 15 (Start time: 08:05:01 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

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Average age of accounts receivable

Question # 5 of 15 (Start time: 08:05:18 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Question # 6 of 15 (Start time: 08:05:40 PM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

Fundamental Analysis

Sensitivity Analysis

Technical Analysis

Trend Analysis

Question # 7 of 15 (Start time: 08:06:08 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 8 of 15 (Start time: 08:06:15 PM) Total Marks: 1

Which one of the following statements describe "Shareholders' wealth" in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 9 of 15 (Start time: 08:06:27 PM) Total Marks: 1

The decision rule for net present value is to:

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Select correct option:

- Accept all projects with cash inflows exceeding initial cost.
- Reject all projects with rates of return exceeding the opportunity cost of capital.
- Accept all projects with positive net present values.
- Reject all projects lasting longer than 10 years.

Question # 10 of 15 (Start time: 08:06:34 PM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

- That the stock is more risky than the market portfolio.
- That an investor should buy the stock.
- That the stock has a high dividend payout ratio.
- That an investor should sell the stock.

Question # 11 of 15 (Start time: 08:06:41 PM) Total Marks: 1

Which one of the following statements describes the relationship between Interest rates and bond prices?

Select correct option:

- Move in the same direction.
- Move in opposite directions
- Sometimes move in the same direction, sometimes in opposite directions
- Have no relationship with each other (i.e., they are independent).

Question # 12 of 15 (Start time: 08:06:48 PM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

- Borrow short term to finance additional fixed assets.
- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities.
- Sell fixed assets to reduce accounts payable.

Question # 13 of 15 (Start time: 08:07:14 PM) Total Marks: 1

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Select correct option:

- Rs.3,105.
- Rs.823.

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Rs.620.
Rs.3,403.

Question # 14 of 15 (Start time: 08:08:07 PM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?
Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 15 of 15 (Start time: 08:09:34 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?
Select correct option:

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

Question # 1 of 15 (Start time: 08:19:18 PM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 2 of 15 (Start time: 08:19:35 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

Question # 3 of 15 (Start time: 08:19:42 PM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some

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years ago with a 10 percent coupon. This bond will currently be priced:
Select correct option:

- At a premium over face value.
- At par value.
- At a discount from face value.
- At face value.

Question # 4 of 15 (Start time: 08:19:51 PM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

- Simple payback method
- Net present value
- Profitability index
- Internal rate of return for borrowing projects

Question # 5 of 15 (Start time: 08:20:14 PM) Total Marks: 1

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

- 4 percent.
- 5 percent.
- 7 percent.
- 9 percent.

Question # 6 of 15 (Start time: 08:20:22 PM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

- Growth stock
- Income stock
- Aggressive stock
- Defensive stock

Question # 7 of 15 (Start time: 08:20:31 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

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20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

Question # 8 of 15 (Start time: 08:21:02 PM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash flows

Sunk Cost

None of the given option

Question # 9 of 15 (Start time: 08:21:14 PM) Total Marks: 1

Dividend discount Model states that today's price of a stock is equal to:

Select correct option:

The Present Value of all future dividends of the stock

The Present Value of the face value of the stock

The Present Value of the Sales price of the stock

The Present Value of the book value of the stock

Question # 10 of 15 (Start time: 08:21:35 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 11 of 15 (Start time: 08:21:43 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 12 of 15 (Start time: 08:22:02 PM) Total Marks: 1

Note: Solve these papers by yourself

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Which of the following would NOT improve the current ratio?
Select correct option:

Borrow short term to finance additional fixed assets.

- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities.
- Sell fixed assets to reduce accounts payable.

Question # 13 of 15 (Start time: 08:22:27 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

- 14%
- 13%**
- 12%
- 10%

Question # 14 of 15 (Start time: 08:22:36 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

- Rs.22,863
- Rs.35,097
- Rs.39,310**
- Rs.25,151

Calculations:-

$$FV = P * \left(\frac{(1+i)^n - 1}{i} \right) * (1+i)$$

$$P = 2000$$

$$I = 0.12$$

$$N = 10 \text{ years}$$

Question # 15 of 15 (Start time: 08:22:58 PM) Total Marks: 1

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

- Initial cost
- Equipment cost
- Cost of capital
- Sunk cost**

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Question # 2 of 15 (Start time: 08:25:45 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 3 of 15 (Start time: 08:25:54 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variables in a project affect profitability

Question # 4 of 15 (Start time: 08:26:13 PM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash flows

Sunk Cost

None of the given option

Question # 5 of 15 (Start time: 08:26:57 PM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

The cost of fixed assets

The cost of accounts payable

Investments

Depreciation

Question # 6 of 15 (Start time: 08:27:15 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

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$$\begin{aligned} QBE &= (P - V)/FC. \\ QBE &= (P/FC) - V. \\ QBE &= (FC/P) - V. \\ QBE &= FC/(P - V). \end{aligned}$$

Question # 7 of 15 (Start time: 08:27:29 PM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Reference:

$$FV = [CCF(1+i)^n - 1] / i$$

$$FV = [400(1+0.09)^{16} - 1] / 0.09 = 13201.36$$

Question # 8 of 15 (Start time: 08:28:44 PM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Question # 9 of 15 (Start time: 08:28:56 PM) Total Marks: 1

Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

Select correct option:

S-corporation.

Partnership.

Corporation

Sole proprietorship

Question # 10 of 15 (Start time: 08:29:02 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all

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interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

Question # 11 of 15 (Start time: 08:29:10 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 12 of 15 (Start time: 08:29:17 PM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets.

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities.

Sell fixed assets to reduce accounts payable.

Question # 13 of 15 (Start time: 08:29:26 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

Rs.25,151

Question # 14 of 15 (Start time: 08:29:45 PM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

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It raises the break-even level.

It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 15 of 15 (Start time: 08:30:19 PM) Total Marks: 1

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

Select correct option:

A zero growth common stock.

A positive growth common stock

A short-term bond

An option.

Question # 1 of 15 (Start time: 08:32:00 PM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash flows

Sunk Cost

None of the given option

Question # 2 of 15 (Start time: 08:32:17 PM) Total Marks: 1

Which of the following reflects the real cost of funds to the borrowers and the real yield to the lenders?

Select correct option:

Real interest rate

Nominal interest rate

Annual interest rate

Quarterly interest rate

Question # 3 of 15 (Start time: 08:32:26 PM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

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Question # 4 of 15 (Start time: 08:32:35 PM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 5 of 15 (Start time: 08:32:44 PM) Total Marks: 1

Which of the following technique of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

Select correct option:

- Technical Analysis**
- Fundamental Analysis**
- Constant Growth Model
- No Growth Model

Question # 6 of 15 (Start time: 08:32:52 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

- Dividend per share: Market value per share
- Earning per share: Intrinsic value per share
- Dividend per share: Earning per share**
- Market value per share: intrinsic value per share

Question # 7 of 15 (Start time: 08:33:02 PM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

- Selection of one precludes selection of the other.
- You should analyze the projects independently.**
- Both the given options may apply
- None of the given options

Question # 8 of 15 (Start time: 08:33:26 PM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

- Accept all projects with cash inflows exceeding initial cost.

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Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 9 of 15 (Start time: 08:33:34 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 10 of 15 (Start time: 08:33:44 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Question # 11 of 15 (Start time: 08:33:56 PM) Total Marks: 1

Which of the following would lower a firm's operating break-even point?

Select correct option:

An increase in the cost of goods sold

An increase in selling price

An increase in wages paid to employees

An increase in total sales

Question # 12 of 15 (Start time: 08:34:07 PM) Total Marks: 1

Which one of the following statements describe "Shareholders' wealth" in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 13 of 15 (Start time: 08:34:16 PM) Total Marks: 1

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If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

- \$82,168.44
- \$71,450.82
- \$768,901.12**
- \$668,609.67

Question # 14 of 15 (Start time: 08:34:32 PM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

- 11.04%
- 10.47%**
- 10.00%
- 10.12%

$$EAR = [1 + i/n]^n - 1$$

$$N = 12$$

$$I = 10\%$$

Apply in above formula and get answer...

Question # 15 of 15 (Start time: 08:34:40 PM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 1 of 15 (Start time: 08:48:17 PM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted

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at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 2 of 15 (Start time: 08:48:25 PM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 3 of 15 (Start time: 08:48:39 PM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

Rs.325

Rs.1,299

Rs.504

Rs.609

$=400(1.08)^3$

Question # 4 of 15 (Start time: 08:48:47 PM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

Decreases

Increases the covariance of

Increases

Does not affect

Question # 5 of 15 (Start time: 08:48:59 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

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Technical analysis

Fundamental analysis
Common size analysis
Ratio analysis

Question # 6 of 15 (Start time: 08:49:28 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.
20-year, 10 percent coupon bond
20-year, 5 percent coupon bond.

Question # 7 of 15 (Start time: 08:49:42 PM) Total Marks: 1

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

4 percent.
5 percent.
7 percent.
9 percent.

Question # 8 of 15 (Start time: 08:49:52 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%
13%
12%
10%

Question # 9 of 15 (Start time: 08:50:00 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

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Horizontal analysis
Vertical analysis

Question # 10 of 15 (Start time: 08:50:10 PM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 11 of 15 (Start time: 08:50:20 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

QBE = (P - V)/FC.

QBE = (P/FC) - V.

QBE = (FC/P) - V.

QBE = FC/ (P - V).

Question # 12 of 15 (Start time: 08:50:29 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 13 of 15 (Start time: 08:50:37 PM) Total Marks: 1

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?

Select correct option:

Fixed costs should be traded for variable costs

Variable costs should be traded for fixed costs.

The project should not be undertaken.

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Additional marketing analysis may be beneficial before proceeding.

Question # 14 of 15 (Start time: 08:50:58 PM) Total Marks: 1

Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.

Select correct option:

- 1.60
- 2.05
- 2.50
- 4.00

$$(\text{ROI}) / (\text{NPM}) = \text{TAT}$$

$$(.08) / (.05) = 1.6$$

Question # 15 of 15 (Start time: 08:51:08 PM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

- Accept all projects with cash inflows exceeding initial cost.
- Reject all projects with rates of return exceeding the opportunity cost of capital.
- Accept all projects with positive net present values.
- Reject all projects lasting longer than 10 years.

Question # 1 of 15 (Start time: 09:00:36 PM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

- 11.04%
- 10.47%
- 10.00%
- 10.12%

Question # 2 of 15 (Start time: 09:00:44 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

- 14%
- 13%
- 12%
- 10%

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Question # 3 of 15 (Start time: 09:00:52 PM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

- Its price will rise
- Its price will remain unchanged
- Its price will fall.**
- Can not be determined

Question # 4 of 15 (Start time: 09:01:00 PM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

- Rs.13,201**
- Rs.17,667
- Rs.9,634
- Rs.19,329.

Question # 5 of 15 (Start time: 09:01:07 PM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

- The company's taxes increased.
- The company's depreciation expense declined.**
- The company's operating income declined.
- All of the given statements are correct.

Question # 7 of 15 (Start time: 09:02:02 PM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

- Rating, for securities with the same maturity.
- Marketability, for securities with the same tax status.
- Maturity, for the same security class.**
- Risk, for securities with the same maturity.

Question # 8 of 15 (Start time: 09:02:11 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

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Select correct option:

- To find out the optimal level of capital budget.
- To find out that how price changes affect break-even volume.
- To find out the seasonal variation in product demand.
- To find out that how variables in a project affect profitability

Question # 9 of 15 (Start time: 09:02:24 PM) Total Marks: 1

Which one of the following statements describes the relationship between Interest rates and bond prices?

Select correct option:

- Move in the same direction.
- Move in opposite directions
- Sometimes move in the same direction, sometimes in opposite directions
- Have no relationship with each other (i.e., they are independent).

Question # 10 of 15 (Start time: 09:02:33 PM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

- Corporate Bonds
- Money Market instruments
- Trade credit
- Accounts Payables

Question # 11 of 15 (Start time: 09:02:46 PM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

- Fundamental Analysis
- Sensitivity Analysis
- Technical Analysis
- Trend Analysis

Question # 12 of 15 (Start time: 09:03:04 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

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Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 13 of 15 (Start time: 09:03:13 PM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

40, 12

20, 12

40, 3

20, 6

Question # 14 of 15 (Start time: 09:03:21 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 15 of 15 (Start time: 09:03:44 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

Question # 1 of 15 (Start time: 09:05:19 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

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Question # 2 of 15 (Start time: 09:05:29 PM) Total Marks: 1

Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.

Select correct option:

1.60

2.05

2.50

4.00

Question # 3 of 15 (Start time: 09:05:37 PM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash flows

Sunk Cost

None of the given option

Question # 4 of 15 (Start time: 09:05:47 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

Rs.25,151

Question # 5 of 15 (Start time: 09:06:24 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

$QBE = (P - V)/FC.$

$QBE = (P/FC) - V.$

$QBE = (FC/P) - V.$

$QBE = FC / (P - V).$

Question # 6 of 15 (Start time: 09:06:35 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

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Select correct option:

- 14%
- 13%**
- 12%
- 10%

Question # 7 of 15 (Start time: 09:06:43 PM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

- 11.04%
- 10.47%**
- 10.00%
- 10.12%

Question # 8 of 15 (Start time: 09:07:06 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

- Current ratio.
- Acid ratio.
- Average age of accounts payable.**
- Average age of accounts receivable

Question # 9 of 15 (Start time: 09:07:19 PM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

- Decreases
- Increases the covariance of
- Increases**
- Does not affect

Question # 10 of 15 (Start time: 09:07:27 PM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

- Rs.2.30

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Rs.3.26

Rs.3.25

Rs.2.93

$$(1 + 0.12/4)^{10} \times 4$$

Question # 11 of 15 (Start time: 09:07:37 PM) Total Marks: 1

Which of the following would lower a firm's operating break-even point?

Select correct option:

An increase in the cost of goods sold

An increase in selling price

An increase in wages paid to employees

An increase in total sales

Question # 12 of 15 (Start time: 09:07:48 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

Question # 13 of 15 (Start time: 09:07:56 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 14 of 15 (Start time: 09:08:06 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

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Question # 15 of 15 (Start time: 09:08:13 PM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

- \$82,168.44
- \$71,450.82
- \$768,901.12**
- \$668,609.67

Question # 1 of 15 (Start time: 09:09:29 PM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

- Its price will rise
- Its price will remain unchanged
- Its price will fall.**
- Can not be determined

Question # 2 of 15 (Start time: 09:10:58 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Select correct option:

- Rs.22,456
- Rs.35,098**
- Rs.28,324.
- Rs.20,324

$FV = PV [(1+i)^n - 1/i]$

Question # 3 of 15 (Start time: 09:11:09 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

- 14%
- 13%**
- 12%

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10%

Question # 4 of 15 (Start time: 09:11:17 PM) Total Marks: 1

Which one of the following statements is TRUE regarding future value of a single sum?
Select correct option:

Increase if the interest rate increases.

Remains unchanged if the interest rate changes

Decrease if the interest rate increases

All of the given options are correct.

Question # 5 of 15 (Start time: 09:11:37 PM) Total Marks: 1

In the formula $rE = (D1/P0) + g$, what does the symbol "g" represent?

Select correct option:

The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Question # 6 of 15 (Start time: 09:11:52 PM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options

Question # 7 of 15 (Start time: 09:12:24 PM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

Simple payback method

Net present value

Profitability index

Internal rate of return for borrowing projects

Question # 8 of 15 (Start time: 09:12:50 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

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It ignores time value of money
It ignores future cash flows
It ignores the scale of investment
It ignores return on investment

Question # 9 of 15 (Start time: 09:13:00 PM) Total Marks: 1

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

Select correct option:

A zero growth common stock.
A positive growth common stock
A short-term bond
An option.

Question # 10 of 15 (Start time: 09:13:10 PM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.
Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.
Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.
Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 11 of 15 (Start time: 09:13:18 PM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets.
Issue long-term debt to buy inventory
Sell common stock to reduce current liabilities.
Sell fixed assets to reduce accounts payable.

Question # 12 of 15 (Start time: 09:13:27 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

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$$QBE = (P - V)/FC.$$

$$QBE = (P/FC) - V.$$

$$QBE = (FC/P) - V.$$

$$QBE = FC / (P - V).$$

Question # 13 of 15 (Start time: 09:13:37 PM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

Question # 14 of 15 (Start time: 09:13:47 PM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

Corporate Bonds

Money Market instruments

Trade credit

Accounts Payables

Question # 15 of 15 (Start time: 09:13:58 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variables in a project affect profitability

Question # 1 of 15 (Start time: 09:16:43 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

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Question # 2 of 15 (Start time: 09:16:54 PM) Total Marks: 1

If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity.)

Select correct option:

- P0 < par and YTM > the coupon rate.
- P0 > par and YTM > the coupon rate.
- P0 > par and YTM < the coupon rate.**
- P0 < par and YTM < the coupon rate.

Question # 3 of 15 (Start time: 09:17:04 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

- Trend analysis**
- Fundamental analysis
- Horizontal analysis
- Vertical analysis

Question # 4 of 15 (Start time: 09:17:13 PM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

- Working Capital Management
- Capital Budgeting**
- Cash Budgeting
- None of the given options

Question # 5 of 15 (Start time: 09:17:24 PM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

- Rating, for securities with the same maturity.
- Marketability, for securities with the same tax status.
- Maturity, for the same security class.**
- Risk, for securities with the same maturity.

Question # 6 of 15 (Start time: 09:17:36 PM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

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Select correct option:

The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 7 of 15 (Start time: 09:17:44 PM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 8 of 15 (Start time: 09:17:53 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Question # 9 of 15 (Start time: 09:18:06 PM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

Its price will rise

Its price will remain unchanged

Its price will fall.

Can not be determined

Question # 10 of 15 (Start time: 09:18:16 PM) Total Marks: 1

Dividend discount Model states that today's price of a stock is equal to:

Select correct option:

The Present Value of all future dividends of the stock

The Present Value of the face value of the stock

The Present Value of the Sales price of the stock

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The Present Value of the book value of the stock

Question # 11 of 15 (Start time: 09:18:39 PM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.

You should analyze the projects independently.

Both the given options may apply

None of the given options

Question # 12 of 15 (Start time: 09:18:59 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 13 of 15 (Start time: 09:19:07 PM) Total Marks: 1

Which of the following technique of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

Select correct option:

Technical Analysis

Fundamental Analysis

Constant Growth Model

No Growth Model

Question # 14 of 15 (Start time: 09:19:19 PM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?

Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 15 of 15 (Start time: 09:19:27 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

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Dividend per share: Market value per share
Earning per share: Intrinsic value per share
Dividend per share: Earning per share
Market value per share: intrinsic value per share

Question # 1 of 15 (Start time: 09:21:19 PM) Total Marks: 1

Which one of the following statements describes the relationship between Interest rates and bond prices?

Select correct option:

Move in the same direction.

Move in opposite directions

Sometimes move in the same direction, sometimes in opposite directions

Have no relationship with each other (i.e., they are independent).

Question # 2 of 15 (Start time: 09:21:27 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

Question # 3 of 15 (Start time: 09:21:39 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 4 of 15 (Start time: 09:21:50 PM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

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Rs.19,329.

Question # 5 of 15 (Start time: 09:21:59 PM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

- \$82,168.44
- \$71,450.82
- \$768,901.12**
- \$668,609.67

Question # 6 of 15 (Start time: 09:22:08 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

- 20-year, zero coupon bond.**
- 10-year, zero coupon bond.
- 20-year, 10 percent coupon bond
- 20-year, 5 percent coupon bond.

Question # 7 of 15 (Start time: 09:22:15 PM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

- Lowering direct cost**
- Increasing variable cost
- Increasing direct cost
- Lowering sales price

Question # 8 of 15 (Start time: 09:22:22 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

- To find out the optimal level of capital budget.
- To find out that how price changes affect break-even volume.
- To find out the seasonal variation in product demand.
- To find out that how variables in a project affect profitability**

Question # 9 of 15 (Start time: 09:22:34 PM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases,

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keeping other things equal ?

Select correct option:

Its price will rise

Its price will remain unchanged

Its price will fall.

Can not be determined

Question # 10 of 15 (Start time: 09:22:54 PM) Total Marks: 1

Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.

Select correct option:

1.60

2.05

2.50

4.00

Question # 11 of 15 (Start time: 09:23:02 PM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.

You should analyze the projects independently.

Both the given options may apply

None of the given options

Question # 12 of 15 (Start time: 09:23:11 PM) Total Marks: 1

Dividend discount Model states that today's price of a stock is equal to:

Select correct option:

The Present Value of all future dividends of the stock

The Present Value of the face value of the stock

The Present Value of the Sales price of the stock

The Present Value of the book value of the stock

Question # 13 of 15 (Start time: 09:23:21 PM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

Rs.325

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Rs.1,299

Rs.504

Rs.609

Question # 14 of 15 (Start time: 09:23:28 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 15 of 15 (Start time: 09:23:35 PM) Total Marks: 1

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

Select correct option:

A zero growth common stock.

A positive growth common stock

A short-term bond

An option.

Question # 1 of 15 (Start time: 09:24:45 PM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Question # 2 of 15 (Start time: 09:25:19 PM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

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Question # 3 of 15 (Start time: 09:25:38 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

QBE = (P - V)/FC.

QBE = (P/FC) - V.

QBE = (FC/P) - V.

QBE = FC/ (P - V).

Question # 4 of 15 (Start time: 09:25:46 PM) Total Marks: 1

Which of the following statement best describe the term Market Correction?

Select correct option:

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market

Market correction occurs when shares' intrinsic values becomes equal to face values

Market Correction occurs when there is a boom in the economy

Market Correction occurs when inflation rate is above the market interest rate

Question # 5 of 15 (Start time: 09:26:08 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 6 of 15 (Start time: 09:26:24 PM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

Working Capital Management

Capital Budgeting

Cash Budgeting

None of the given options

Question # 7 of 15 (Start time: 09:26:34 PM) Total Marks: 1

Which one of the following statements is TRUE regarding future value of a single sum?

Select correct option:

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Increase if the interest rate increases.

Remains unchanged if the interest rate changes

Decrease if the interest rate increases

All of the given options are correct.

Question # 8 of 15 (Start time: 09:26:45 PM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Question # 9 of 15 (Start time: 09:26:53 PM) Total Marks: 1

Which of the following reason justifies the need for financial statement analysis?

Select correct option:

It will help improve capital budgeting process of the company

It will help improve future planning

It will help improve accounting policies of the company

It will help improve purchasing policies of the company

Question # 10 of 15 (Start time: 09:27:04 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 11 of 15 (Start time: 09:27:13 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variables in a project affect profitability

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Question # 12 of 15 (Start time: 09:27:21 PM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

Question # 13 of 15 (Start time: 09:27:30 PM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

Growth stock

Income stock

Aggressive stock

Defensive stock

Question # 14 of 15 (Start time: 09:27:39 PM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 15 of 15 (Start time: 09:27:51 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 1 of 15 (Start time: 09:29:41 PM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

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Corporate Bonds

Money Market instruments
Trade credit
Accounts Payables

Question # 2 of 15 (Start time: 09:29:51 PM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?
Select correct option:

Growth stock
Income stock
Aggressive stock
Defensive stock

Question # 3 of 15 (Start time: 09:30:01 PM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

11.04%
10.47%
10.00%
10.12%

Question # 4 of 15 (Start time: 09:30:09 PM) Total Marks: 1

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

Initial cost
Equipment cost
Cost of capital
Sunk cost

Question # 5 of 15 (Start time: 09:30:18 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value
Less than its face value.
\$1,000.

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Can not be determined

Question # 6 of 15 (Start time: 09:30:26 PM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

Rs.2.30

Rs.3.26

Rs.3.25

Rs.2.93

Question # 7 of 15 (Start time: 09:30:34 PM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 8 of 15 (Start time: 09:30:43 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

Question # 9 of 15 (Start time: 09:30:51 PM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost

Increasing variable cost

Increasing direct cost

Lowering sales price

Question # 10 of 15 (Start time: 09:31:01 PM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

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When market price of the security is above the intrinsic value of the security
When market price of the security is equal to the intrinsic value of the security
When market value of the security is equal to the face value of the security
When market price of the security is below the intrinsic value of the security

Question # 11 of 15 (Start time: 09:31:10 PM) Total Marks: 1

Which of the following reason justifies the need for financial statement analysis?
Select correct option:

It will help improve capital budgeting process of the company
It will help improve future planning
It will help improve accounting policies of the company
It will help improve purchasing polices of the company

Question # 12 of 15 (Start time: 09:31:18 PM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?
Select correct option:

Fundamental Analysis
Sensitivity Analysis
Technical Analysis
Trend Analysis

Question # 13 of 15 (Start time: 09:31:28 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?
Select correct option:

A decrease in the discount rate
A decrease in the size of the cash inflows
An increase in the initial cost of the project
A decrease in the number of cash inflows

Question # 14 of 15 (Start time: 09:31:38 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?
Select correct option:

Rs.22,863
Rs.35,097

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Rs.39,310

Rs.25,151

Question # 15 of 15 (Start time: 09:33:00 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%

13%

12%

10%

Question # 1 of 15 (Start time: 09:41:27 PM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

The company's taxes increased.

The company's depreciation expense declined.

The company's operating income declined.

All of the given statements are correct.

Question # 2 of 15 (Start time: 09:42:00 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variables in a project affect profitability

Question # 3 of 15 (Start time: 09:42:10 PM) Total Marks: 1

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

Initial cost

Equipment cost

Cost of capital

Sunk cost

Question # 4 of 15 (Start time: 09:42:21 PM) Total Marks: 1

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What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

- More than its face value
- Less than its face value.**
- \$1,000.
- Can not be determined

Question # 5 of 15 (Start time: 09:42:30 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

- The projects would have the same IRR.
- The projects would have the same payback period.
- The projects are mutually exclusive.
- The projects would add the same amount to the value of the firm.**

Question # 6 of 15 (Start time: 09:42:39 PM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

- The one with the largest Net Present Value.**
- The one with the smallest Net Present Value.
- Either one. Both are greater than the cost of capital.
- None of the given options

Question # 7 of 15 (Start time: 09:42:49 PM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

- Simple payback method**
- Net present value
- Profitability index
- Internal rate of return for borrowing projects

Question # 8 of 15 (Start time: 09:43:10 PM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

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14%
13%
12%
10%

Question # 9 of 15 (Start time: 09:43:19 PM) Total Marks: 1
Which of the following would lower a firm's operating break-even point?
Select correct option:

An increase in the cost of goods sold
An increase in selling price
An increase in wages paid to employees
An increase in total sales

Question # 10 of 15 (Start time: 09:43:30 PM) Total Marks: 1
You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:
Select correct option:

Rs.13,201
Rs.17,667
Rs.9,634
Rs.19,329.

Question # 11 of 15 (Start time: 09:43:38 PM) Total Marks: 1
What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?
Select correct option:

Rs.2.30
Rs.3.26
Rs.3.25
Rs.2.93

Question # 12 of 15 (Start time: 09:43:47 PM) Total Marks: 1
Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.
Select correct option:

40, 12

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20, 12

40, 3

20, 6

Question # 13 of 15 (Start time: 09:43:56 PM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 14 of 15 (Start time: 09:44:04 PM) Total Marks: 1

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?

Select correct option:

Fixed costs should be traded for variable costs.

Variable costs should be traded for fixed costs.

The project should not be undertaken.

Additional marketing analysis may be beneficial before proceeding.

Question # 15 of 15 (Start time: 09:44:14 PM) Total Marks: 1

If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity.)

Select correct option:

$P_0 < \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM < \text{the coupon rate}$.

$P_0 < \text{par}$ and $YTM < \text{the coupon rate}$.

Question # 1 of 15 (Start time: 09:45:56 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

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Question # 2 of 15 (Start time: 09:46:05 PM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 3 of 15 (Start time: 09:46:15 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

A decrease in the discount rate

A decrease in the size of the cash inflows

An increase in the initial cost of the project

A decrease in the number of cash inflows

Question # 4 of 15 (Start time: 09:46:27 PM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

Fundamental Analysis

Sensitivity Analysis

Technical Analysis

Trend Analysis

Question # 5 of 15 (Start time: 09:46:37 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

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Question # 6 of 15 (Start time: 09:46:46 PM) Total Marks: 1
Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.
Select correct option:

- 1.60
- 2.05
- 2.50
- 4.00

Question # 7 of 15 (Start time: 09:46:55 PM) Total Marks: 1
Which one of the following statements describes the relationship between interest rates and bond prices?
Select correct option:

- Move in the same direction.
- Move in opposite directions
- Sometimes move in the same direction, sometimes in opposite directions
- Have no relationship with each other (i.e., they are independent).

Question # 8 of 15 (Start time: 09:47:04 PM) Total Marks: 1
The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.
Select correct option:

- 11.04%
- 10.47%
- 10.00%
- 10.12%

Question # 9 of 15 (Start time: 09:47:14 PM) Total Marks: 1
Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?
Select correct option:

- Trend analysis
- Fundamental analysis
- Horizontal analysis
- Vertical analysis

Question # 10 of 15 (Start time: 09:47:25 PM) Total Marks: 1
Holding everything else constant, increasing fixed costs _____ the firm's break-even

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point.

Select correct option:

Decreases

Increases the covariance of

Increases

Does not affect

Question # 11 of 15 (Start time: 09:47:34 PM) Total Marks: 1

Which of the following technique of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

Select correct option:

Technical Analysis

Fundamental Analysis

Constant Growth Model

No Growth Model

Question # 12 of 15 (Start time: 09:47:44 PM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

40, 12

20, 12

40, 3

20, 6

Question # 13 of 15 (Start time: 09:47:52 PM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

Question # 14 of 15 (Start time: 09:48:15 PM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

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Corporate Bonds

Money Market instruments
Trade credit
Accounts Payables

Question # 15 of 15 (Start time: 09:48:25 PM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

Select correct option:

At a premium over face value.

At par value.

At a discount from face value.

At face value.

Question # 1 of 15 (Start time: 09:50:07 PM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

$QBE = (P - V)/FC.$

$QBE = (P/FC) - V.$

$QBE = (FC/P) - V.$

$QBE = FC / (P - V).$

Question # 2 of 15 (Start time: 09:50:20 PM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Question # 3 of 15 (Start time: 09:50:28 PM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

Initial Public Offering

Buying Mutual Funds Certificates

Selling old shares

Buying Bonds issued in previous year

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Question # 4 of 15 (Start time: 09:50:40 PM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 5 of 15 (Start time: 09:51:53 PM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?

Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 6 of 15 (Start time: 09:52:03 PM) Total Marks: 1

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?

Select correct option:

Fixed costs should be traded for variable costs

Variable costs should be traded for fixed costs.

The project should not be undertaken.

Additional marketing analysis may be beneficial before proceeding.

Question # 7 of 15 (Start time: 09:52:17 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 8 of 15 (Start time: 09:52:29 PM) Total Marks: 1

Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.

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Select correct option:

- 1.60
- 2.05
- 2.50
- 4.00

Question # 9 of 15 (Start time: 09:52:37 PM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

Corporate Bonds

- Money Market instruments
- Trade credit
- Accounts Payables

Question # 10 of 15 (Start time: 09:52:45 PM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

Select correct option:

- At a premium over face value.**
- At par value.
- At a discount from face value.
- At face value.

Question # 11 of 15 (Start time: 09:53:06 PM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

- Fundamental analysis
- Horizontal analysis
- Vertical analysis

Question # 12 of 15 (Start time: 09:53:16 PM) Total Marks: 1

Which of the following reflects the real cost of funds to the borrowers and the real yield to the lenders?

Select correct option:

Real interest rate

- Nominal interest rate

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Annual interest rate
Quarterly interest rate

Question # 13 of 15 (Start time: 09:53:24 PM) Total Marks: 1
If two projects are independent, that means that _____.
Select correct option:

Selection of one precludes selection of the other.
You should analyze the projects independently.
Both the given options may apply
None of the given options

Question # 14 of 15 (Start time: 09:53:33 PM) Total Marks: 1
Which one of the following statements is TRUE regarding future value of a single sum?
Select correct option:

Increase if the interest rate increases.
Remains unchanged if the interest rate changes
Decrease if the interest rate increases
All of the given options are correct.

Question # 15 of 15 (Start time: 09:53:48 PM) Total Marks: 1
Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?
Select correct option:

Its price will rise
Its price will remain unchanged
Its price will fall.
Can not be determined

Question # 1 of 15 (Start time: 10:01:44 PM) Total Marks: 1
Which of the following is a major advantage of the corporate form of organization?
Select correct option:

Reduction of double taxation.
Limited owner liability.
Legal restrictions.
Ease of organization

Question # 2 of 15 (Start time: 10:02:29 PM) Total Marks: 1
If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

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Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 3 of 15 (Start time: 10:03:03 PM) Total Marks: 1

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Select correct option:

Rs.3,105.

Rs.823.

Rs.620.

Rs.3,403.

Question # 4 of 15 (Start time: 10:03:18 PM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis

Common size analysis

Ration analysis

Question # 5 of 15 (Start time: 10:03:33 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

Rs.25,151

Question # 6 of 15 (Start time: 10:03:54 PM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

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The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 7 of 15 (Start time: 10:04:13 PM) Total Marks: 1

Which of the following reason justifies the need for financial statement analysis?

Select correct option:

It will help improve capital budgeting process of the company

It will help improve future planning

It will help improve accounting policies of the company

It will help improve purchasing polices of the company

Question # 8 of 15 (Start time: 10:04:39 PM) Total Marks: 1

In the formula $r_E = (D_1/P_0) + g$, what does the symbol "g" represent?

Select correct option:

The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Question # 9 of 15 (Start time: 10:05:12 PM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 10 of 15 (Start time: 10:05:24 PM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

\$82,168.44

\$71,450.82

\$768,901.12

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\$668,609.67

Question # 11 of 15 (Start time: 10:05:37 PM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 12 of 15 (Start time: 10:06:25 PM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

Question # 13 of 15 (Start time: 10:06:37 PM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

Initial Public Offering

Buying Mutual Funds Certificates

Selling old shares

Buying Bonds issued in previous year

Question # 14 of 15 (Start time: 10:06:53 PM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

To find out the optimal level of capital budget.

To find out that how price changes affect break-even volume.

To find out the seasonal variation in product demand.

To find out that how variables in a project affect profitability

Question # 15 of 15 (Start time: 10:07:15 PM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

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A decrease in the discount rate

- A decrease in the size of the cash inflows
- An increase in the initial cost of the project
- A decrease in the number of cash inflows

Question # 1 of 15 (Start time: 07:14:23 PM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?

Select correct option:

- \$82,168.44
- \$71,450.82
- \$768,901.12**
- \$668,609.67

Question # 3 of 15 (Start time: 07:16:37 PM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost

- Increasing variable cost
- Increasing direct cost
- Lowering sales price

Question # 4 of 15 (Start time: 07:17:50 PM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

- 10-year, zero coupon bond.
- 20-year, 10 percent coupon bond
- 20-year, 5 percent coupon bond.

Question # 6 of 15 (Start time: 07:20:30 PM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

The company's taxes increased.

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The company's depreciation expense declined.

The company's operating income declined.

All of the given statements are correct.

Question # 7 of 15 (Start time: 07:21:39 PM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

8 of 15 (Start time: 07:22:48 PM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm

Question # 9 of 15 (Start time: 07:23:55 PM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

Question # 10 of 15 (Start time: 07:25:15 PM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

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Rs.25,151

Question # 11 of 15 (Start time: 07:26:36 PM) Total Marks: 1

In which of the following situations market price of a security will move up?
Select correct option:

- When market price of the security is above the intrinsic value of the security
- When market price of the security is equal to the intrinsic value of the security
- When market value of the security is equal to the face value of the security
- When market price of the security is below the intrinsic value of the security

Question # 12 of 15 (Start time: 07:28:03 PM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

- Net Present Value
- Internal Rate of Return
- Discounted Pay Back period
- Simple Pay Back Period

Question # 13 of 15 (Start time: 07:29:21 PM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

- Rs.2.30
- Rs.3.26
- Rs.3.25
- Rs.2.93

Question # 14 of 15 (Start time: 07:30:46 PM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?
Select correct option:

- Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.
- Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.
- Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

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Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 15 of 15 (Start time: 07:32:10 PM) Total Marks: 1

Which of the following technique of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

Select correct option:

Technical Analysis

Fundamental Analysis

Constant Growth Model

No Growth Model

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

Accepting projects with the highest NPVs first

Accepting projects with the highest IRRs first

Bypassing projects that have positive NPVs

Bypassing projects that have positive IRRs

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

The cost of fixed assets

The cost of accounts payable

Investments

Depreciation

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

Select correct option:

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At a premium over face value.

At par value.

At a discount from face value.

At face value.

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%

13%

12%

10%

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

Rs.325

Rs.1,299

Rs.504

Rs.609

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

It reduces the break-even level.

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It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Which of the following would lower a firm's operating break-even point?

Select correct option:

An increase in the cost of goods sold

An increase in selling price

An increase in wages paid to employees

An increase in total sales

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

Simple payback method

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Net present value
Profitability index
Internal rate of return for borrowing projects

A project would be financially feasible in which of the following situation?
Select correct option:

If Internal Rate of Return of a project is greater than zero
If Net Present Value of a project is less than zero
If the project has Profitability Index less one.
If the project has Profitability Index greater than one.

Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?
Select correct option:

Simple payback period
Discounted payback period
Multiple Internal Rate of Return
Linear Programming

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?
Select correct option:

The one with the largest Net Present Value.
The one with the smallest Net Present Value.
Either one. Both are greater than the cost of capital.
None of the given options

Which of the following statement best describe the term Market Correction?
Select correct option:

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market
Market correction occurs when shares' intrinsic values becomes equal to face values
Market Correction occurs when there is a boom in the economy
Market Correction occurs when inflation rate is above the market interest rate

What is the main purpose of constructing a portfolio of financial assets?
Select correct option:

To maximize risk and minimize the return

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To minimize the risk and minimize the return
To maximize the return and minimize the risk
To minimize the return and minimize the risk

The variance of an investment's returns is a measure of the:
Select correct option:

Volatility of the rates of return.
Probability of a negative return.
Historic return over long periods.
Average value of the investment.

Which of the following best illustrates the problem imposed by capital rationing?
Select correct option:

Accepting projects with the highest NPVs first
Accepting projects with the highest IRRs first
Bypassing projects that have positive NPVs
Bypassing projects that have positive IRRs

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.
Select correct option:

The cost of fixed assets
The cost of accounts payable
Investments
Depreciation

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?
Select correct option:

The projects would have the same IRR.
The projects would have the same payback period.
The projects are mutually exclusive.
The projects would add the same amount to the value of the firm.

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:
Select correct option:

At a premium over face value.

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At par value.
At a discount from face value.
At face value.

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?
Select correct option:

14%
13%
12%
10%

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?
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What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?
Select correct option:

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The price paid for the bond

The interest payments to be received.

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Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

Simple payback method

Net present value

Profitability index

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Internal rate of return for borrowing projects

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Linear Programming

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The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

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Select correct option:

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Market Correction occurs when there is a boom in the economy

Market Correction occurs when inflation rate is above the market interest rate

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Select correct option:

To maximize risk and minimize the return

To minimize the risk and minimize the return

To maximize the return and minimize the risk

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To minimize the return and minimize the risk

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Select correct option:

Volatility of the rates of return.

Probability of a negative return.
Historic return over long periods.
Average value of the investment.

Which of the following best illustrates the problem imposed by capital rationing?
Select correct option:

Accepting projects with the highest NPVs first
Accepting projects with the highest IRRs first
Bypassing projects that have positive NPVs
Bypassing projects that have positive IRRs

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.
Select correct option:

The cost of fixed assets
The cost of accounts payable
Investments
Depreciation

Question # 1 of 15 (Start time: 05:36:05 AM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?
Select correct option:

Initial Public Offering
Buying Mutual Funds Certificates
Selling old shares
Buying Bonds issued in previous year

Question # 2 of 15 (Start time: 05:36:23 AM) Total Marks: 1

A project would be financially feasible in which of the following situation?
Select correct option:

If Internal Rate of Return of a project is greater than zero
If Net Present Value of a project is less than zero
If the project has Profitability Index less one.

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If the project has Profitability Index greater than one.

Question # 3 of 15 (Start time: 05:36:36 AM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

Working Capital Management

Capital Budgeting

Cash Budgeting

None of the given options

Question # 4 of 15 (Start time: 05:36:49 AM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Question # 5 of 15 (Start time: 05:37:00 AM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

Its price will rise

Its price will remain unchanged

Its price will fall.

Can not be determined

Question # 6 of 15 (Start time: 05:37:12 AM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Select correct option:

Rs.22,456

Rs.35,098

Rs.28,324.

Rs.20,324

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Question # 7 of 15 (Start time: 05:37:29 AM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%

13%

12%

10%

Question # 8 of 15 (Start time: 05:37:37 AM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

$QBE = (P - V)/FC.$

$QBE = (P/FC) - V.$

$QBE = (FC/P) - V.$

$QBE = FC / (P - V).$

Question # 9 of 15 (Start time: 05:37:43 AM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 10 of 15 (Start time: 05:37:57 AM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

Select correct option:

11.04%

10.47%

10.00%

10.12%

Question # 11 of 15 (Start time: 05:38:09 AM) Total Marks: 1

The variance of an investment's returns is a measure of the:

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Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment.

Question # 12 of 15 (Start time: 05:38:22 AM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 13 of 15 (Start time: 05:38:34 AM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets.

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities.

Sell fixed assets to reduce accounts payable.

Question # 14 of 15 (Start time: 05:38:57 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 15 of 15 (Start time: 05:39:11 AM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

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Question # 1 of 15 (Start time: 05:43:16 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 2 of 15 (Start time: 05:43:29 AM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

- Decreases
- Increases the covariance of
- Increases**
- Does not affect

Question # 3 of 15 (Start time: 05:43:42 AM) Total Marks: 1

Which one of the following statements describes the relationship between Interest rates and bond prices?

Select correct option:

- Move in the same direction.
- Move in opposite directions**
- Sometimes move in the same direction, sometimes in opposite directions
- Have no relationship with each other (i.e., they are independent).

Question # 4 of 15 (Start time: 05:43:55 AM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

- Weighted average
- Standard deviation**
- Probability distribution
- Geometric mean

Question # 5 of 15 (Start time: 05:44:30 AM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

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Select correct option:

At a premium over face value.

At par value.

At a discount from face value.

At face value.

Question # 6 of 15 (Start time: 05:44:43 AM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 7 of 15 (Start time: 05:45:00 AM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 8 of 15 (Start time: 05:45:13 AM) Total Marks: 1

The variance of an investment's returns is a measure of the:

Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment.

Question # 9 of 15 (Start time: 05:45:23 AM) Total Marks: 1

Dividend discount Model states that today's price of a stock is equal to:

Select correct option:

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The Present Value of all future dividends of the stock

The Present Value of the face value of the stock

The Present Value of the Sales price of the stock

The Present Value of the book value of the stock

Question # 10 of 15 (Start time: 05:45:37 AM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 11 of 15 (Start time: 05:45:49 AM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

Question # 12 of 15 (Start time: 05:46:02 AM) Total Marks: 1

What is the main purpose of constructing a portfolio of financial assets?

Select correct option:

To maximize risk and minimize the return

To minimize the risk and minimize the return

To maximize the return and minimize the risk

To minimize the return and minimize the risk

Question # 13 of 15 (Start time: 05:46:16 AM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 14 of 15 (Start time: 05:46:27 AM) Total Marks: 1

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Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

- 4 percent.
- 5 percent.
- 7 percent.
- 9 percent.**

Question # 15 of 15 (Start time: 05:46:39 AM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

- 40, 12
- 20, 12
- 40, 3**
- 20, 6

Question # 1 of 15 (Start time: 05:49:36 AM) Total Marks: 1

When a firm places a budgetary constraint on the projects it invests in, this is called:

Select correct option:

- Capital rationing**
- Working capital management
- Cash budgeting
- None of the above

Question # 2 of 15 (Start time: 05:50:34 AM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

- That the stock is more risky than the market portfolio.**
- That an investor should buy the stock.
- That the stock has a high dividend payout ratio.
- That an investor should sell the stock.

Question # 3 of 15 (Start time: 05:50:46 AM) Total Marks: 1

In the formula $r_E = (D_1/P_0) + g$, what does the symbol "g" represent?

Select correct option:

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The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Question # 4 of 15 (Start time: 05:51:01 AM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

Weighted average

Standard deviation

Probability distribution

Geometric mean

Question # 5 of 15 (Start time: 05:51:07 AM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

Question # 6 of 15 (Start time: 05:51:13 AM) Total Marks: 1

The employment of fixed costs associated with the actual production of goods or services is known as:

Select correct option:

Financial leverage

Volume discounting

Operating leverage

Covariance

Question # 7 of 15 (Start time: 05:51:41 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

The cost of fixed assets

The cost of accounts payable

Investments

Depreciation

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Question # 8 of 15 (Start time: 05:51:56 AM) Total Marks: 1

Which one of the following terms refers to the variability of return on stocks or portfolios associated with changes in return on the market as a whole?

Select correct option:

- Unsystematic risk
- Unique risk
- Systematic risk**
- Company specific risk

Question # 9 of 15 (Start time: 05:52:19 AM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

- The bond's maturity value.
- The price paid for the bond
- The interest payments to be received.
- All of the given options**

Question # 10 of 15 (Start time: 05:52:30 AM) Total Marks: 1

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

- Initial cost
- Equipment cost
- Cost of capital
- Sunk cost**

Question # 11 of 15 (Start time: 05:52:43 AM) Total Marks: 1

Which of the following changes will increase the Net Present Value (NPV) of a project?

Select correct option:

- A decrease in the discount rate**
- A decrease in the size of the cash inflows
- An increase in the initial cost of the project
- A decrease in the number of cash inflows

Question # 12 of 15 (Start time: 05:52:56 AM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account

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be worth at the end of 16 years?

Select correct option:

\$82,168.44

\$71,450.82

\$768,901.12

\$668,609.67

Question # 13 of 15 (Start time: 05:53:07 AM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

Borrow short term to finance additional fixed assets.

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities.

Sell fixed assets to reduce accounts payable.

Question # 14 of 15 (Start time: 05:53:18 AM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 15 of 15 (Start time: 05:53:31 AM) Total Marks: 1

The variance of an investment's returns is a measure of the:

Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment.

Question # 1 of 15 (Start time: 05:55:54 AM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

Initial Public Offering

Buying Mutual Funds Certificates

Selling old shares

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Buying Bonds issued in previous year

Question # 2 of 15 (Start time: 05:56:00 AM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 3 of 15 (Start time: 05:56:07 AM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 4 of 15 (Start time: 05:56:21 AM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 5 of 15 (Start time: 05:56:33 AM) Total Marks: 1

When a firm places a budgetary constraint on the projects it invests in, this is called:

Select correct option:

Capital rationing

Working capital management

Cash budgeting

None of the above

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Question # 6 of 15 (Start time: 05:56:48 AM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 7 of 15 (Start time: 05:57:07 AM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

The company's taxes increased.

The company's depreciation expense declined.

The company's operating income declined.

All of the given statements are correct.

Question # 8 of 15 (Start time: 05:57:21 AM) Total Marks: 1

Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

Select correct option:

S-corporation.

Partnership.

Corporation

Sole proprietorship

Question # 9 of 15 (Start time: 05:57:33 AM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

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Question # 10 of 15 (Start time: 05:58:01 AM) Total Marks: 1

Which of the following statement best describe the term Market Correction?

Select correct option:

Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market

Market correction occurs when shares' intrinsic values becomes equal to face values

Market Correction occurs when there is a boom in the economy

Market Correction occurs when inflation rate is above the market interest rate

Question # 11 of 15 (Start time: 05:58:14 AM) Total Marks: 1

Which of the following is determined by variance of an investment's returns?

Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment

Question # 12 of 15 (Start time: 05:58:20 AM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

Future Profits

Future Cash flows

Sunk Cost

None of the given option

Question # 13 of 15 (Start time: 05:58:28 AM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

Rs.25,151

Question # 14 of 15 (Start time: 05:59:00 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

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It ignores time value of money
It ignores future cash flows
It ignores the scale of investment
It ignores return on investment

Question # 15 of 15 (Start time: 05:59:06 AM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.
The one with the smallest Net Present Value.
Either one. Both are greater than the cost of capital.
None of the given options

Question # 1 of 15 (Start time: 06:09:45 AM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

Fundamental Analysis
Sensitivity Analysis
Technical Analysis
Trend Analysis

Question # 2 of 15 (Start time: 06:09:57 AM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

Weighted average
Standard deviation
Probability distribution
Geometric mean

Question # 3 of 15 (Start time: 06:10:03 AM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.
You should analyze the projects independently.
Both the given options may apply
None of the given options

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Question # 4 of 15 (Start time: 06:10:17 AM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

The one with the largest Internal Rate of Return.

The one with the smallest Internal Rate of Return.

The one with the highest Net Present Value at the firm's cost of capital.

None of the given options

Question # 5 of 15 (Start time: 06:10:30 AM) Total Marks: 1

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

Accepting projects with the highest NPVs first

Accepting projects with the highest IRRs first

Bypassing projects that have positive NPVs

Bypassing projects that have positive IRRs

Question # 6 of 15 (Start time: 06:10:44 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

Growth stock

Income stock

Aggressive stock

Defensive stock

Question # 7 of 15 (Start time: 06:10:56 AM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 8 of 15 (Start time: 06:11:02 AM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

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Dividend per share: Market value per share
Earning per share: Intrinsic value per share
Dividend per share: Earning per share
Market value per share: intrinsic value per share

Question # 9 of 15 (Start time: 06:11:08 AM) Total Marks: 1
Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?
Select correct option:

Rs.22,863
Rs.35,097
Rs.39,310
Rs.25,151

Question # 10 of 15 (Start time: 06:11:20 AM) Total Marks: 1
The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.
Select correct option:

Degree of operating leverage
Degree of profit leverage
Degree of total leverage
Degree of financial leverage

Question # 11 of 15 (Start time: 06:11:53 AM) Total Marks: 1
Which of the following is a main purpose of the Sensitivity Analysis?
Select correct option:

To find out the optimal level of capital budget.
To find out that how price changes affect break-even volume.
To find out the seasonal variation in product demand.
To find out that how variables in a project affect profitability

Question # 12 of 15 (Start time: 06:12:06 AM) Total Marks: 1
Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?
Select correct option:

The company's taxes increased.
The company's depreciation expense declined.

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The company's operating income declined.
All of the given statements are correct.

Question # 13 of 15 (Start time: 06:12:14 AM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201

Rs.17,667

Rs.9,634

Rs.19,329.

Question # 14 of 15 (Start time: 06:12:21 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

The cost of fixed assets

The cost of accounts payable

Investments

Depreciation

Question # 15 of 15 (Start time: 06:12:36 AM) Total Marks: 1

Which of the following would lower a firm's operating break-even point?

Select correct option:

An increase in the cost of goods sold

An increase in selling price

An increase in wages paid to employees

An increase in total sales

Question # 1 of 15 (Start time: 06:15:36 AM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

Initial Public Offering

Buying Mutual Funds Certificates

Selling old shares

Buying Bonds issued in previous year

Question # 2 of 15 (Start time: 06:15:43 AM) Total Marks: 1

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Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?

Select correct option:

- Simple payback period
- Discounted payback period
- Multiple Internal Rate of Return
- Linear Programming**

Question # 3 of 15 (Start time: 06:15:56 AM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

- Current ratio.
- Acid ratio.
- Average age of accounts payable.**
- Average age of accounts receivable

Question # 4 of 15 (Start time: 06:16:05 AM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

- Net Present Value
- Internal Rate of Return
- Discounted Pay Back period
- Simple Pay Back Period**

Question # 5 of 15 (Start time: 06:16:18 AM) Total Marks: 1

Which of the following condition if exist will make the diversification more effective?

Select correct option:

- Securities contained in a portfolio are positively correlated
- Securities contained in a portfolio are negatively correlated**
- Securities contained in a portfolio have high market values
- Securities contained in a portfolio have low market values

Question # 6 of 15 (Start time: 06:16:46 AM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

- Weighted average

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Standard deviation

Probability distribution
Geometric mean

Question # 7 of 15 (Start time: 06:16:52 AM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?
Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 8 of 15 (Start time: 06:17:06 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?
Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 9 of 15 (Start time: 06:17:12 AM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?
Select correct option:

The company's taxes increased.

The company's depreciation expense declined.

The company's operating income declined.

All of the given statements are correct.

Question # 10 of 15 (Start time: 06:17:20 AM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?
Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 11 of 15 (Start time: 06:17:26 AM) Total Marks: 1

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The employment of fixed costs associated with the actual production of goods or services is known as:

Select correct option:

- Financial leverage
- Volume discounting
- Operating leverage**
- Covariance

Question # 12 of 15 (Start time: 06:17:40 AM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

- Decreases
- Increases the covariance of
- Increases**
- Does not affect

Question # 13 of 15 (Start time: 06:17:52 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

- Growth stock
- Income stock**
- Aggressive stock
- Defensive stock

Question # 14 of 15 (Start time: 06:17:58 AM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

- Lowering direct cost**
- Increasing variable cost
- Increasing direct cost
- Lowering sales price

Question # 15 of 15 (Start time: 06:18:11 AM) Total Marks: 1

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Select correct option:

Rs.3,105.

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Rs.823.
Rs.620.
Rs.3,403.

Question # 1 of 15 (Start time: 06:21:55 AM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?
Select correct option:

The company's taxes increased.
The company's depreciation expense declined.
The company's operating income declined.
All of the given statements are correct.

Question # 2 of 15 (Start time: 06:22:01 AM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?
Select correct option:

Reduction of double taxation.
Limited owner liability.
Legal restrictions.
Ease of organization

Question # 3 of 15 (Start time: 06:22:08 AM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

Rs.325
Rs.1,299
Rs.504
Rs.609

Question # 4 of 15 (Start time: 06:22:21 AM) Total Marks: 1

Which of the following should be ignored, while evaluating the financial viability of a project?

Select correct option:

Initial cost
Equipment cost
Cost of capital
Sunk cost

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Question # 5 of 15 (Start time: 06:22:34 AM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 6 of 15 (Start time: 06:22:46 AM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?

Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 7 of 15 (Start time: 06:22:52 AM) Total Marks: 1

Which one of the following statements describe "Shareholders' wealth" in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

Question # 8 of 15 (Start time: 06:23:05 AM) Total Marks: 1

What's the value to you of a \$1,000 face-value bond with an 8% coupon rate when your required rate of return is 15 percent?

Select correct option:

More than its face value

Less than its face value.

\$1,000.

Can not be determined

Question # 9 of 15 (Start time: 06:23:17 AM) Total Marks: 1

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If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?
Select correct option:

- The one with the largest Net Present Value.**
- The one with the smallest Net Present Value.
- Either one. Both are greater than the cost of capital.
- None of the given options

Question # 10 of 15 (Start time: 06:23:26 AM) Total Marks: 1

Which one of the following terms refers to the variability of return on stocks or portfolios associated with changes in return on the market as a whole?

Select correct option:

- Unsystematic risk
- Unique risk
- Systematic risk**
- Company specific risk

Question # 11 of 15 (Start time: 06:23:39 AM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____

Select correct option:

- 11.04%
- 10.47%**
- 10.00%
- 10.12%

Question # 12 of 15 (Start time: 06:23:45 AM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

- Fundamental Analysis
- Sensitivity Analysis**
- Technical Analysis
- Trend Analysis

Question # 13 of 15 (Start time: 06:23:58 AM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

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Select correct option:

- The projects would have the same IRR.
- The projects would have the same payback period.
- The projects are mutually exclusive.
- The projects would add the same amount to the value of the firm.**

Question # 14 of 15 (Start time: 06:24:05 AM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

- 2,500
- 5,000**
- 1,500
- 7,500

Question # 15 of 15 (Start time: 06:24:17 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 1 of 15 (Start time: 06:26:54 AM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

- Rating, for securities with the same maturity.
- Marketability, for securities with the same tax status.
- Maturity, for the same security class.**
- Risk, for securities with the same maturity.

Question # 2 of 15 (Start time: 06:27:00 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable

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Investments
Depreciation

Question # 3 of 15 (Start time: 06:27:05 AM) Total Marks: 1
Which of the following would lower a firm's operating break-even point?
Select correct option:

- An increase in the cost of goods sold
- An increase in selling price
- An increase in wages paid to employees
- An increase in total sales**

Question # 4 of 15 (Start time: 06:27:12 AM) Total Marks: 1
Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:
Select correct option:

- Rs.22,456
- Rs.35,098**
- Rs.28,324.
- Rs.20,324

Question # 5 of 15 (Start time: 06:27:19 AM) Total Marks: 1
Which of the following should be ignored, while evaluating the financial viability of a project?
Select correct option:

- Initial cost
- Equipment cost
- Cost of capital
- Sunk cost**

Question # 6 of 15 (Start time: 06:27:27 AM) Total Marks: 1
Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:
Select correct option:

- S-corporation.
- Partnership.
- Corporation

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Sole proprietorship

Question # 7 of 15 (Start time: 06:27:33 AM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

Rs.22,863

Rs.35,097

Rs.39,310

Rs.25,151

Question # 8 of 15 (Start time: 06:27:38 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

Growth stock

Income stock

Aggressive stock

Defensive stock

Question # 9 of 15 (Start time: 06:27:44 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money

It ignores future cash flows

It ignores the scale of investment

It ignores return on investment

Question # 10 of 15 (Start time: 06:27:50 AM) Total Marks: 1

A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?

Select correct option:

2,500

5,000

1,500

7,500

Question # 11 of 15 (Start time: 06:27:55 AM) Total Marks: 1

Which of the following would NOT improve the current ratio?

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Select correct option:

Borrow short term to finance additional fixed assets.

Issue long-term debt to buy inventory

Sell common stock to reduce current liabilities.

Sell fixed assets to reduce accounts payable.

Question # 12 of 15 (Start time: 06:28:01 AM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Question # 13 of 15 (Start time: 06:28:13 AM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

Current ratio.

Acid ratio.

Average age of accounts payable.

Average age of accounts receivable

Question # 14 of 15 (Start time: 06:28:18 AM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

$QBE = (P - V)/FC.$

$QBE = (P/FC) - V.$

$QBE = (FC/P) - V.$

$QBE = FC / (P - V).$

Question # 15 of 15 (Start time: 06:28:24 AM) Total Marks: 1

Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:

Select correct option:

A zero growth common stock.

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A positive growth common stock
A short-term bond
An option.

Question # 1 of 15 (Start time: 06:30:43 AM) Total Marks: 1

Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?

Select correct option:

Technical analysis

Fundamental analysis
Common size analysis
Ration analysis

Question # 2 of 15 (Start time: 06:30:56 AM) Total Marks: 1

If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity.)

Select correct option:

P0 < par and YTM > the coupon rate.
P0 > par and YTM > the coupon rate.
P0 > par and YTM < the coupon rate.
P0 < par and YTM < the coupon rate.

Question # 3 of 15 (Start time: 06:31:10 AM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.
You should analyze the projects independently.
Both the given options may apply
None of the given options

Question # 4 of 15 (Start time: 06:31:16 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money
It ignores future cash flows
It ignores the scale of investment
It ignores return on investment

Question # 5 of 15 (Start time: 06:31:23 AM) Total Marks: 1

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A project would be financially feasible in which of the following situation?
Select correct option:

- If Internal Rate of Return of a project is greater than zero
- If Net Present Value of a project is less than zero
- If the project has Profitability Index less one.
- If the project has Profitability Index greater than one.**

Question # 6 of 15 (Start time: 06:31:37 AM) Total Marks: 1
In the formula $rE = (D1/P0) + g$, what does the symbol "g" represent?
Select correct option:

- The expected price appreciation yield from a common stock.**
- The expected dividend yield from a common stock.
- The dividend yield from a preferred stock.
- The interest payment from a bond.

Question # 7 of 15 (Start time: 06:32:00 AM) Total Marks: 1
What is the main purpose of constructing a portfolio of financial assets?
Select correct option:

- To maximize risk and minimize the return
- To minimize the risk and minimize the return
- To maximize the return and minimize the risk**
- To minimize the return and minimize the risk

Question # 8 of 15 (Start time: 06:32:19 AM) Total Marks: 1
Which of the following is determined by variance of an investment's returns?
Select correct option:

- Volatility of the rates of return.**
- Probability of a negative return.
- Historic return over long periods.
- Average value of the investment

Question # 9 of 15 (Start time: 06:32:25 AM) Total Marks: 1
Holding everything else constant, increasing fixed costs _____ the firm's break-even point.
Select correct option:

- Decreases
- Increases the covariance of
- Increases**

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Does not affect

Question # 10 of 15 (Start time: 06:32:31 AM) Total Marks: 1

Which one of the following terms refers to the variability of return on stocks or portfolios associated with changes in return on the market as a whole?

Select correct option:

Unsystematic risk

Unique risk

Systematic risk

Company specific risk

Question # 11 of 15 (Start time: 06:32:38 AM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share

Earning per share: Intrinsic value per share

Dividend per share: Earning per share

Market value per share: intrinsic value per share

Question # 12 of 15 (Start time: 06:32:44 AM) Total Marks: 1

Which of the following condition if exist will make the diversification more effective?

Select correct option:

Securities contained in a portfolio are positively correlated

Securities contained in a portfolio are negatively correlated

Securities contained in a portfolio have high market values

Securities contained in a portfolio have low market values

Question # 13 of 15 (Start time: 06:32:51 AM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

Select correct option:

At a premium over face value.

At par value.

At a discount from face value.

At face value.

Question # 14 of 15 (Start time: 06:33:03 AM) Total Marks: 1

The effective annual rate of an investment with a nominal annual rate of 10% compounded monthly is closest to _____.

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Select correct option:

- 11.04%
- 10.47%
- 10.00%
- 10.12%

Question # 15 of 15 (Start time: 06:33:10 AM) Total Marks: 1

The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:

Select correct option:

- Rs.3,105.
- Rs.823.
- Rs.620.
- Rs.3,403.

Question # 1 of 15 (Start time: 06:41:46 AM) Total Marks: 1

Which of the following is a long-term source of financing for a firm?

Select correct option:

- Corporate Bonds
- Money Market instruments
- Trade credit
- Accounts Payables

Question # 2 of 15 (Start time: 06:42:01 AM) Total Marks: 1

Which of the following would lower a firm's operating break-even point?

Select correct option:

- An increase in the cost of goods sold
- An increase in selling price
- An increase in wages paid to employees
- An increase in total sales

Question # 3 of 15 (Start time: 06:42:10 AM) Total Marks: 1

Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on the stock?

Select correct option:

- 2%
- 3%

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4%

5%

Reference:

Dividend yield = Annual dividends per share / price per share

= 2 / 35

= 0.057

= 5%

Question # 4 of 15 (Start time: 06:43:11 AM) Total Marks: 1

When a firm places a budgetary constraint on the projects it invests in, this is called:
Select correct option:

Capital rationing

Working capital management

Cash budgeting

None of the above

Question # 5 of 15 (Start time: 06:43:21 AM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:
Select correct option:

QBE = (P - V)/FC.

QBE = (P/FC) - V.

QBE = (FC/P) - V.

QBE = FC/ (P - V).

Question # 6 of 15 (Start time: 06:43:27 AM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?
Select correct option:

Simple payback method

Net present value

Profitability index

Internal rate of return for borrowing projects

Question # 7 of 15 (Start time: 06:43:38 AM) Total Marks: 1

Which one of the following statements best describes the intrinsic value of a stock?
Select correct option:

Intrinsic value of a stock is the future value of all expected future dividends, discounted

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at the dividend growth rate.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the dividend growth rate.

Intrinsic value of a stock is the future value of all expected future dividends, discounted at the investor's required return.

Intrinsic value of a stock is the present value of all expected future dividends, discounted at the investor's required return.

Question # 8 of 15 (Start time: 06:43:44 AM) Total Marks: 1

Which of the following reflects the real cost of funds to the borrowers and the real yield to the lenders?

Select correct option:

Real interest rate

Nominal interest rate

Annual interest rate

Quarterly interest rate

Question # 9 of 15 (Start time: 06:43:57 AM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Question # 10 of 15 (Start time: 06:44:12 AM) Total Marks: 1

A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?

Select correct option:

14%

13%

12%

10%

Question # 11 of 15 (Start time: 06:44:19 AM) Total Marks: 1

The decision rule for net present value is to:

Select correct option:

Accept all projects with cash inflows exceeding initial cost.

Reject all projects with rates of return exceeding the opportunity cost of capital.

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Accept all projects with positive net present values.

Reject all projects lasting longer than 10 years.

Question # 12 of 15 (Start time: 06:44:24 AM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Question # 13 of 15 (Start time: 06:44:40 AM) Total Marks: 1

If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?

Select correct option:

Fixed costs should be traded for variable costs

Variable costs should be traded for fixed costs.

The project should not be undertaken.

Additional marketing analysis may be beneficial before proceeding.

Question # 14 of 15 (Start time: 06:44:54 AM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 15 of 15 (Start time: 06:45:00 AM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

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Question # 1 of 15 (Start time: 06:55:11 AM) Total Marks: 1

Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

Select correct option:

- 20-year, zero coupon bond.
- 10-year, zero coupon bond.
- 20-year, 10 percent coupon bond
- 20-year, 5 percent coupon bond.

Question # 2 of 15 (Start time: 06:55:18 AM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

- Net Present Value
- Internal Rate of Return
- Discounted Pay Back period
- Simple Pay Back Period

Question # 3 of 15 (Start time: 06:55:26 AM) Total Marks: 1

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

- Accepting projects with the highest NPVs first
- Accepting projects with the highest IRRs first
- Bypassing projects that have positive NPVs
- Bypassing projects that have positive IRRs

Question # 4 of 15 (Start time: 06:55:41 AM) Total Marks: 1

Which of the following technique of stock evaluation considers quantitative factors as well as qualitative factors for valuation?

Select correct option:

- Technical Analysis
- Fundamental Analysis
- Constant Growth Model
- No Growth Model

Question # 5 of 15 (Start time: 06:55:57 AM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to

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evaluate a capital project?
Select correct option:

- Fundamental Analysis
- Sensitivity Analysis**
- Technical Analysis
- Trend Analysis

Question # 6 of 15 (Start time: 06:56:03 AM) Total Marks: 1
Dividend discount Model states that today's price of a stock is equal to:
Select correct option:

- The Present Value of all future dividends of the stock**
- The Present Value of the face value of the stock
- The Present Value of the Sales price of the stock
- The Present Value of the book value of the stock

Question # 7 of 15 (Start time: 06:56:42 AM) Total Marks: 1
Which of the following changes will increase the Net Present Value (NPV) of a project?
Select correct option:

- A decrease in the discount rate**
- A decrease in the size of the cash inflows
- An increase in the initial cost of the project
- A decrease in the number of cash inflows

Question # 8 of 15 (Start time: 06:56:49 AM) Total Marks: 1
A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?
Select correct option:

- 14%
- 13%**
- 12%
- 10%

Question # 9 of 15 (Start time: 06:56:55 AM) Total Marks: 1
Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?
Select correct option:

- Technical analysis**
- Fundamental analysis

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Common size analysis
Ration analysis

Question # 10 of 15 (Start time: 06:57:02 AM) Total Marks: 1
In the formula $rE = (D1/P0) + g$, what does the symbol "g" represent?
Select correct option:

The expected price appreciation yield from a common stock.

The expected dividend yield from a common stock.

The dividend yield from a preferred stock.

The interest payment from a bond.

Question # 11 of 15 (Start time: 06:57:09 AM) Total Marks: 1
Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.
Select correct option:

40, 12

20, 12

40, 3

20, 6

Question # 12 of 15 (Start time: 06:57:15 AM) Total Marks: 1
The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:
Select correct option:

Rs.3,105.

Rs.823.

Rs.620.

Rs.3,403.

Question # 13 of 15 (Start time: 06:57:20 AM) Total Marks: 1
If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?
Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

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Question # 14 of 15 (Start time: 06:57:33 AM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

- Rs.325
- Rs.1,299
- Rs.504**
- Rs.609

Question # 15 of 15 (Start time: 06:57:38 AM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:

Select correct option:

- Rs.22,456
- Rs.35,098**
- Rs.28,324.
- Rs.20,324

Question # 1 of 15 (Start time: 07:00:58 AM) Total Marks: 1

Which of the following condition if exist will make the diversification more effective?

Select correct option:

- Securities contained in a portfolio are positively correlated
- Securities contained in a portfolio are negatively correlated**
- Securities contained in a portfolio have high market values
- Securities contained in a portfolio have low market values

Question # 2 of 15 (Start time: 07:01:05 AM) Total Marks: 1

Which of the following is a measure of risk of an asset?

Select correct option:

- Weighted average
- Standard deviation**
- Probability distribution
- Geometric mean

Question # 3 of 15 (Start time: 07:01:11 AM) Total Marks: 1

Which of the following is a main purpose of the Sensitivity Analysis?

Select correct option:

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To find out the optimal level of capital budget.
To find out that how price changes affect break-even volume.
To find out the seasonal variation in product demand.
To find out that how variables in a project affect profitability

Question # 4 of 15 (Start time: 07:01:25 AM) Total Marks: 1

The formula for the break-even quantity of output (QBE), given the price per unit (P), fixed costs (FC), and variable cost per unit (V), is:

Select correct option:

QBE = (P - V)/FC.

QBE = (P/FC) - V.

QBE = (FC/P) - V.

QBE = FC/ (P - V).

Question # 5 of 15 (Start time: 07:01:31 AM) Total Marks: 1

Which of the following is determined by variance of an investment's returns?

Select correct option:

Volatility of the rates of return.

Probability of a negative return.

Historic return over long periods.

Average value of the investment

Question # 6 of 15 (Start time: 07:01:37 AM) Total Marks: 1

In which of the following situations market price of a security will move up?

Select correct option:

When market price of the security is above the intrinsic value of the security

When market price of the security is equal to the intrinsic value of the security

When market value of the security is equal to the face value of the security

When market price of the security is below the intrinsic value of the security

Question # 7 of 15 (Start time: 07:01:43 AM) Total Marks: 1

Which one of the following is a major limitation of Linear Programming Technique of capital projects selection?

Select correct option:

Ignores the relative size of the Investment

Time value of money is not considered

Project cash flows are ignored

Project profitability is ignored

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Question # 8 of 15 (Start time: 07:03:02 AM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

- Rs.325
- Rs.1,299
- Rs.504**
- Rs.609

Question # 9 of 15 (Start time: 07:03:14 AM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

- Simple payback method**
- Net present value
- Profitability index
- Internal rate of return for borrowing projects

Question # 10 of 15 (Start time: 07:03:21 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 11 of 15 (Start time: 07:03:27 AM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

- Initial Public Offering**
- Buying Mutual Funds Certificates
- Selling old shares
- Buying Bonds issued in previous year

Question # 12 of 15 (Start time: 07:03:33 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

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Select correct option:

- Growth stock
- Income stock**
- Aggressive stock
- Defensive stock

Question # 13 of 15 (Start time: 07:03:38 AM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some years ago with a 10 percent coupon. This bond will currently be priced:

Select correct option:

- At a premium over face value.**
- At par value.
- At a discount from face value.
- At face value.

Question # 14 of 15 (Start time: 07:03:45 AM) Total Marks: 1

Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

Select correct option:

- S-corporation.
- Partnership.
- Corporation
- Sole proprietorship**

Question # 15 of 15 (Start time: 07:03:51 AM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

- Rs.2.30
- Rs.3.26**
- Rs.3.25
- Rs.2.93

Question # 1 of 15 (Start time: 07:06:36 AM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

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Trend analysis

Fundamental analysis
Horizontal analysis
Vertical analysis

Question # 2 of 15 (Start time: 07:06:42 AM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

Dividend per share: Market value per share
Earning per share: Intrinsic value per share
Dividend per share: Earning per share
Market value per share: intrinsic value per share

Question # 3 of 15 (Start time: 07:06:49 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

The cost of fixed assets
The cost of accounts payable
Investments
Depreciation

Question # 4 of 15 (Start time: 07:06:54 AM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

Working Capital Management
Capital Budgeting
Cash Budgeting
None of the given options

Question # 5 of 15 (Start time: 07:07:10 AM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost
Increasing variable cost
Increasing direct cost
Lowering sales price

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Question # 6 of 15 (Start time: 07:07:21 AM) Total Marks: 1
Which one of the following transactions take place in a primary financial market?
Select correct option:

Initial Public Offering

- Buying Mutual Funds Certificates
- Selling old shares
- Buying Bonds issued in previous year

Question # 7 of 15 (Start time: 07:07:28 AM) Total Marks: 1
A project would be financially feasible in which of the following situation?
Select correct option:

- If Internal Rate of Return of a project is greater than zero
- If Net Present Value of a project is less than zero
- If the project has Profitability Index less one.
- If the project has Profitability Index greater than one.**

Question # 8 of 15 (Start time: 07:07:34 AM) Total Marks: 1
Which of the following changes will increase the Net Present Value (NPV) of a project?
Select correct option:

A decrease in the discount rate

- A decrease in the size of the cash inflows
- An increase in the initial cost of the project
- A decrease in the number of cash inflows

Question # 9 of 15 (Start time: 07:07:41 AM) Total Marks: 1
Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:
Select correct option:

A zero growth common stock.

- A positive growth common stock
- A short-term bond
- An option.

Question # 10 of 15 (Start time: 07:07:48 AM) Total Marks: 1
Which of the following best illustrates the problem imposed by capital rationing?
Select correct option:

Accepting projects with the highest NPVs first

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Accepting projects with the highest IRRs first
Bypassing projects that have positive NPVs
Bypassing projects that have positive IRRs

Question # 11 of 15 (Start time: 07:07:54 AM) Total Marks: 1
Which of the following is a main purpose of the Sensitivity Analysis?
Select correct option:

To find out the optimal level of capital budget.
To find out that how price changes affect break-even volume.
To find out the seasonal variation in product demand.
To find out that how variables in a project affect profitability

Question # 12 of 15 (Start time: 07:08:07 AM) Total Marks: 1
When a firm places a budgetary constraint on the projects it invests in, this is called:
Select correct option:

Capital rationing
Working capital management
Cash budgeting
None of the above

Question # 13 of 15 (Start time: 07:08:15 AM) Total Marks: 1
Which one of the following statements describes the relationship between Interest rates and bond prices?
Select correct option:

Move in the same direction.
Move in opposite directions
Sometimes move in the same direction, sometimes in opposite directions
Have no relationship with each other (i.e., they are independent).

Question # 14 of 15 (Start time: 07:08:21 AM) Total Marks: 1
Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?
Select correct option:

4 percent.
5 percent.
7 percent.
9 percent.

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Question # 15 of 15 (Start time: 07:08:27 AM) Total Marks: 1

Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?

Select correct option:

Its price will rise

Its price will remain unchanged

Its price will fall.

Can not be determined

Question # 1 of 15 (Start time: 07:11:06 AM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options

Question # 2 of 15 (Start time: 07:11:18 AM) Total Marks: 1

Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?

Select correct option:

Trend analysis

Fundamental analysis

Horizontal analysis

Vertical analysis

Question # 3 of 15 (Start time: 07:11:25 AM) Total Marks: 1

If a bond sells at a high premium, then which of the following relationships hold true? (P0 represents the price of a bond and YTM is the bond's yield to maturity.)

Select correct option:

$P_0 < \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM > \text{the coupon rate}$.

$P_0 > \text{par}$ and $YTM < \text{the coupon rate}$.

$P_0 < \text{par}$ and $YTM < \text{the coupon rate}$.

Question # 4 of 15 (Start time: 07:11:32 AM) Total Marks: 1

The employment of fixed costs associated with the actual production of goods or services is known as:

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Select correct option:

- Financial leverage
- Volume discounting
- Operating leverage**
- Covariance

Question # 5 of 15 (Start time: 07:11:47 AM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

- Fundamental Analysis
- Sensitivity Analysis**
- Technical Analysis
- Trend Analysis

Question # 6 of 15 (Start time: 07:12:09 AM) Total Marks: 1

Which of the following condition if exist will make the diversification more effective?

Select correct option:

- Securities contained in a portfolio are positively correlated**
- Securities contained in a portfolio are negatively correlated**
- Securities contained in a portfolio have high market values
- Securities contained in a portfolio have low market values

Question # 7 of 15 (Start time: 07:12:15 AM) Total Marks: 1

Dividend discount Model states that today's price of a stock is equal to:

Select correct option:

- The Present Value of all future dividends of the stock**
- The Present Value of the face value of the stock
- The Present Value of the Sales price of the stock
- The Present Value of the book value of the stock

Question # 8 of 15 (Start time: 07:12:21 AM) Total Marks: 1

In the formula $rE = (D1/P0) + g$, what does the symbol "g" represent?

Select correct option:

- The expected price appreciation yield from a common stock.**
- The expected dividend yield from a common stock.
- The dividend yield from a preferred stock.

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The interest payment from a bond.

Question # 9 of 15 (Start time: 07:12:27 AM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?
Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 10 of 15 (Start time: 07:12:34 AM) Total Marks: 1

Which of the following capital budgeting technique ignores profitability and time value of money?

Select correct option:

Net Present Value

Internal Rate of Return

Discounted Pay Back period

Simple Pay Back Period

Question # 11 of 15 (Start time: 07:12:41 AM) Total Marks: 1

If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?

Select correct option:

The one with the largest Net Present Value.

The one with the smallest Net Present Value.

Either one. Both are greater than the cost of capital.

None of the given options

Question # 12 of 15 (Start time: 07:12:48 AM) Total Marks: 1

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

4 percent.

5 percent.

7 percent.

9 percent.

Question # 13 of 15 (Start time: 07:12:54 AM) Total Marks: 1

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Which of the following is a measure of risk of an asset?
Select correct option:

- Weighted average
- Standard deviation**
- Probability distribution
- Geometric mean

Question # 14 of 15 (Start time: 07:13:00 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?
Select correct option:

- Growth stock
- Income stock**
- Aggressive stock
- Defensive stock

Question # 15 of 15 (Start time: 07:13:05 AM) Total Marks: 1

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.
Select correct option:

- Degree of operating leverage**
- Degree of profit leverage
- Degree of total leverage
- Degree of financial leverage

Question # 1 of 15 (Start time: 07:16:22 AM) Total Marks: 1

If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?
Select correct option:

- \$82,168.44
- \$71,450.82
- \$768,901.12**
- \$668,609.67

Question # 2 of 15 (Start time: 07:16:28 AM) Total Marks: 1

The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____.
Select correct option:

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Degree of operating leverage

- Degree of profit leverage
- Degree of total leverage
- Degree of financial leverage

Question # 3 of 15 (Start time: 07:16:34 AM) Total Marks: 1

Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments

Depreciation

Question # 4 of 15 (Start time: 07:16:40 AM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

- 40, 12
- 20, 12
- 40, 3**
- 20, 6

Question # 5 of 15 (Start time: 07:16:46 AM) Total Marks: 1

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

- 4 percent.
- 5 percent.
- 7 percent.
- 9 percent.**

Question # 6 of 15 (Start time: 07:16:52 AM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

- Working Capital Management

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Capital Budgeting

Cash Budgeting

None of the given options

Question # 7 of 15 (Start time: 07:16:59 AM) Total Marks: 1

The employment of fixed costs associated with the actual production of goods or services is known as:

Select correct option:

Financial leverage

Volume discounting

Operating leverage

Covariance

Question # 8 of 15 (Start time: 07:17:14 AM) Total Marks: 1

If two projects offer the same, positive NPV, then which of the following would be a reasonable conclusion?

Select correct option:

The projects would have the same IRR.

The projects would have the same payback period.

The projects are mutually exclusive.

The projects would add the same amount to the value of the firm.

Question # 9 of 15 (Start time: 07:17:20 AM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

Rating, for securities with the same maturity.

Marketability, for securities with the same tax status.

Maturity, for the same security class.

Risk, for securities with the same maturity.

Question # 10 of 15 (Start time: 07:17:26 AM) Total Marks: 1

If two projects are independent, that means that _____.

Select correct option:

Selection of one precludes selection of the other.

You should analyze the projects independently.

Both the given options may apply

None of the given options

Question # 11 of 15 (Start time: 07:17:32 AM) Total Marks: 1

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If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

- The bond's maturity value.
- The price paid for the bond
- The interest payments to be received.
- All of the given options**

Question # 12 of 15 (Start time: 07:17:46 AM) Total Marks: 1

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

- Accepting projects with the highest NPVs first
- Accepting projects with the highest IRRs first
- Bypassing projects that have positive NPVs**
- Bypassing projects that have positive IRRs

Question # 13 of 15 (Start time: 07:17:52 AM) Total Marks: 1

Suppose you wish to set aside Rs.2,000 at the beginning of each of the next 10 years (the first Rs.2,000 deposit would be made now) in an account paying 12 percent compounded annually. Approximately how much will you accumulate at the end of 10 years?

Select correct option:

- Rs.22,863
- Rs.35,097
- Rs.39,310**
- Rs.25,151

Question # 14 of 15 (Start time: 07:17:58 AM) Total Marks: 1

Which of the following would NOT improve the current ratio?

Select correct option:

- Borrow short term to finance additional fixed assets.**
- Issue long-term debt to buy inventory
- Sell common stock to reduce current liabilities.
- Sell fixed assets to reduce accounts payable.

Question # 15 of 15 (Start time: 07:18:04 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

- Growth stock

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Income stock

Aggressive stock
Defensive stock

Question # 1 of 15 (Start time: 07:20:25 AM) Total Marks: 1

Virgo Airlines will pay Rs.4.00 dividend next year on its common stock, which is currently selling at Rs.100 per share. What is the market's required return on this investment if the dividend is expected to grow at 5% forever?

Select correct option:

- 4 percent.
- 5 percent.
- 7 percent.
- 9 percent.**

Question # 2 of 15 (Start time: 07:20:31 AM) Total Marks: 1

If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?

Select correct option:

- The one with the largest Internal Rate of Return.**
- The one with the smallest Internal Rate of Return.
- The one with the highest Net Present Value at the firm's cost of capital.
- None of the given options

Question # 3 of 15 (Start time: 07:20:37 AM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?

Select correct option:

- Reduction of double taxation.
- Limited owner liability.**
- Legal restrictions.
- Ease of organization

Question # 4 of 15 (Start time: 07:20:43 AM) Total Marks: 1

What is the main purpose of constructing a portfolio of financial assets?

Select correct option:

- To maximize risk and minimize the return
- To minimize the risk and minimize the return
- To maximize the return and minimize the risk**
- To minimize the return and minimize the risk

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Question # 5 of 15 (Start time: 07:20:50 AM) Total Marks: 1

Which of the following best illustrates the problem imposed by capital rationing?

Select correct option:

- Accepting projects with the highest NPVs first
- Accepting projects with the highest IRRs first
- Bypassing projects that have positive NPVs**
- Bypassing projects that have positive IRRs

Question # 6 of 15 (Start time: 07:20:56 AM) Total Marks: 1

Which of the following investment criteria does not take the time value of money into consideration?

Select correct option:

- Simple payback method**
- Net present value
- Profitability index
- Internal rate of return for borrowing projects

Question # 7 of 15 (Start time: 07:21:02 AM) Total Marks: 1

If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:

Select correct option:

- Current ratio.
- Acid ratio.
- Average age of accounts payable.**
- Average age of accounts receivable

Question # 8 of 15 (Start time: 07:21:08 AM) Total Marks: 1

The term structure of interest rates refers to the relationship between yield and:

Select correct option:

- Rating, for securities with the same maturity.
- Marketability, for securities with the same tax status.
- Maturity, for the same security class.**
- Risk, for securities with the same maturity.

Question # 9 of 15 (Start time: 07:21:14 AM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

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Rs.2.30

Rs.3.26

Rs.3.25

Rs.2.93

Question # 10 of 15 (Start time: 07:21:20 AM) Total Marks: 1

Which of the following reason justifies the need for financial statement analysis?

Select correct option:

It will help improve capital budgeting process of the company

It will help improve future planning

It will help improve accounting policies of the company

It will help improve purchasing polices of the company

Question # 11 of 15 (Start time: 07:21:32 AM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 12 of 15 (Start time: 07:21:38 AM) Total Marks: 1

Which one of the following is a major limitation of Linear Programming Technique of capital projects selection?

Select correct option:

Ignores the relative size of the Investment

Time value of money is not considered

Project cash flows are ignored

Project profitability is ignored

Question # 13 of 15 (Start time: 07:21:54 AM) Total Marks: 1

Which one of the following statements describe "Shareholders' wealth" in a firm?

Select correct option:

The number of people employed in the firm

The book value of the firm's assets less the book value of its liabilities

The market price per share of the firm's common stock

The amount of salary paid to its employees

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Question # 14 of 15 (Start time: 07:22:04 AM) Total Marks: 1
Which of the following statements is TRUE regarding Profitability Index?
Select correct option:

- It ignores time value of money
- It ignores future cash flows
- It ignores the scale of investment**
- It ignores return on investment

Question # 15 of 15 (Start time: 07:22:10 AM) Total Marks: 1
Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?
Select correct option:

- Its price will rise
- Its price will remain unchanged
- Its price will fall.**
- Can not be determined

Question # 1 of 15 (Start time: 07:24:49 AM) Total Marks: 1
The percentage change in a firm's operating profit (EBIT) resulting from a 1% change in output (sales) is known as the _____
Select correct option:

- Degree of operating leverage**
- Degree of profit leverage
- Degree of total leverage
- Degree of financial leverage

Question # 2 of 15 (Start time: 07:24:56 AM) Total Marks: 1
Which of the following should be ignored, while evaluating the financial viability of a project?
Select correct option:

- Initial cost
- Equipment cost
- Cost of capital
- Sunk cost**

Question # 3 of 15 (Start time: 07:25:02 AM) Total Marks: 1
Which of the following bonds will have the greatest percentage increase in value if all interest rates decrease by 1 percent?

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Select correct option:

20-year, zero coupon bond.

10-year, zero coupon bond.

20-year, 10 percent coupon bond

20-year, 5 percent coupon bond.

Question # 4 of 15 (Start time: 07:25:10 AM) Total Marks: 1

You have calculated that the required rate of return on a particular common stock is less than the expected rate of return. Therefore, you would conclude:

Select correct option:

That the stock is more risky than the market portfolio.

That an investor should buy the stock.

That the stock has a high dividend payout ratio.

That an investor should sell the stock.

Question # 5 of 15 (Start time: 07:25:25 AM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

The bond's maturity value.

The price paid for the bond

The interest payments to be received.

All of the given options

Question # 6 of 15 (Start time: 07:25:38 AM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

Decreases

Increases the covariance of

Increases

Does not affect

Question # 7 of 15 (Start time: 07:25:44 AM) Total Marks: 1

What effect will a reduction in the cost of capital have on the accounting break-even level of revenues?

Select correct option:

It raises the break-even level.

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It reduces the break-even level.

It has no effect on the break-even level.

This cannot be determined without knowing the length of the investment horizon.

Question # 8 of 15 (Start time: 07:25:50 AM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

40, 12

20, 12

40, 3

20, 6

Question # 9 of 15 (Start time: 07:25:56 AM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost

Increasing variable cost

Increasing direct cost

Lowering sales price

Question # 10 of 15 (Start time: 07:26:02 AM) Total Marks: 1

Which of the following is a major advantage of the corporate form of organization?

Select correct option:

Reduction of double taxation.

Limited owner liability.

Legal restrictions.

Ease of organization

Question # 11 of 15 (Start time: 07:26:07 AM) Total Marks: 1

If you invest Rs.400 today in a savings account paying 8 percent interest per year, how much will you have in the account at the end of three years if the interest is compounded annually?

Select correct option:

Rs.325

Rs.1,299

Rs.504

Rs.609

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Question # 12 of 15 (Start time: 07:26:13 AM) Total Marks: 1
Dividend discount Model states that today's price of a stock is equal to:
Select correct option:

The Present Value of all future dividends of the stock

- The Present Value of the face value of the stock
- The Present Value of the Sales price of the stock
- The Present Value of the book value of the stock

Question # 13 of 15 (Start time: 07:26:19 AM) Total Marks: 1
The present value of Rs.5,000 received at the end of 5 years, discounted at 10 percent, is closest to:
Select correct option:

Rs.3,105.

- Rs.823.
- Rs.620.
- Rs.3,403.

Question # 14 of 15 (Start time: 07:26:25 AM) Total Marks: 1
Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.
Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 15 of 15 (Start time: 07:26:30 AM) Total Marks: 1
You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:
Select correct option:

Rs.13,201

- Rs.17,667
- Rs.9,634
- Rs.19,329.

Question # 1 of 15 (Start time: 07:29:01 AM) Total Marks: 1
Since capital budgeting uses cash flows instead of accounting flows, the financial

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manager must add back _____ to the analysis.

Select correct option:

- The cost of fixed assets
- The cost of accounts payable
- Investments
- Depreciation**

Question # 2 of 15 (Start time: 07:29:08 AM) Total Marks: 1

Which of the following is determined by variance of an investment's returns?

Select correct option:

- Volatility of the rates of return.
- Probability of a negative return.
- Historic return over long periods.
- Average value of the investment

Question # 3 of 15 (Start time: 07:29:14 AM) Total Marks: 1

Which of the following methods would be most suitable for selecting capital project (s) in case of multi-period capital rationing?

Select correct option:

- Simple payback period
- Discounted payback period
- Multiple Internal Rate of Return
- Linear Programming**

Question # 4 of 15 (Start time: 07:29:27 AM) Total Marks: 1

The variance of an investment's returns is a measure of the:

Select correct option:

- Volatility of the rates of return.**
- Probability of a negative return.
- Historic return over long periods.
- Average value of the investment.

Question # 5 of 15 (Start time: 07:30:55 AM) Total Marks: 1

Which one of the following transactions take place in a primary financial market?

Select correct option:

- Initial Public Offering**
- Buying Mutual Funds Certificates

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Selling old shares
Buying Bonds issued in previous year

Question # 6 of 15 (Start time: 07:31:07 AM) Total Marks: 1

Which of the following focuses on long-term decision-making regarding the acquisition of projects?

Select correct option:

Working Capital Management

Capital Budgeting

Cash Budgeting

None of the given options

Question # 7 of 15 (Start time: 07:31:15 AM) Total Marks: 1

If two projects are independent, that means that _____

Select correct option:

Selection of one precludes selection of the other.

You should analyze the projects independently.

Both the given options may apply

None of the given options

Question # 8 of 15 (Start time: 07:31:21 AM) Total Marks: 1

A firm can lower its breakeven level by doing which of the following actions?

Select correct option:

Lowering direct cost

Increasing variable cost

Increasing direct cost

Lowering sales price

Question # 9 of 15 (Start time: 07:31:28 AM) Total Marks: 1

Which one of the following terms refers to the variability of return on stocks or portfolios associated with changes in return on the market as a whole?

Select correct option:

Unsystematic risk

Unique risk

Systematic risk

Company specific risk

Question # 10 of 15 (Start time: 07:31:35 AM) Total Marks: 1

Suppose that market now requires an 8 percent return for a bond that was issued some

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years ago with a 10 percent coupon. This bond will currently be priced:
Select correct option:

- At a premium over face value.
- At par value.
- At a discount from face value.
- At face value.

Question # 11 of 15 (Start time: 07:31:41 AM) Total Marks: 1

What is the future value of Rs.1 invested for 10 years if the 12 percent annual rate of interest is compounded quarterly?

Select correct option:

- Rs.2.30
- Rs.3.26
- Rs.3.25
- Rs.2.93

Question # 12 of 15 (Start time: 07:31:48 AM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

- The company's taxes increased.
- The company's depreciation expense declined.
- The company's operating income declined.
- All of the given statements are correct.

Question # 13 of 15 (Start time: 07:31:56 AM) Total Marks: 1

If an investor buys a non-zero coupon bond and holds it to maturity, then the rate of return she will receive depends on:

Select correct option:

- The bond's maturity value.
- The price paid for the bond
- The interest payments to be received.
- All of the given options

Question # 14 of 15 (Start time: 07:32:02 AM) Total Marks: 1

Which of the following would lower a firm's operating break-even point?

Select correct option:

- An increase in the cost of goods sold

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An increase in selling price
An increase in wages paid to employees
An increase in total sales

Question # 15 of 15 (Start time: 07:32:09 AM) Total Marks: 1
Which of the following is the Dividend Payout ratio for a common stock?
Select correct option:

Dividend per share: Market value per share
Earning per share: Intrinsic value per share
Dividend per share: Earning per share
Market value per share: intrinsic value per share

Question # 1 of 15 (Start time: 07:37:20 AM) Total Marks: 1
Which one of the following statements describe "Shareholders' wealth" in a firm?
Select correct option:

The number of people employed in the firm
The book value of the firm's assets less the book value of its liabilities
The market price per share of the firm's common stock
The amount of salary paid to its employees

Question # 2 of 15 (Start time: 07:37:28 AM) Total Marks: 1
Which of the following method of stock evaluation tries to predict the future movement of a stock based on past data?
Select correct option:

Trend analysis
Fundamental analysis
Horizontal analysis
Vertical analysis

Question # 3 of 15 (Start time: 07:37:34 AM) Total Marks: 1
Which of the following is a method of evaluating securities by analyzing statistics generated by market activity, such as past prices and volume?
Select correct option:

Technical analysis
Fundamental analysis
Common size analysis
Ration analysis

Question # 4 of 15 (Start time: 07:37:47 AM) Total Marks: 1

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A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?
Select correct option:

- 2,500
- 5,000**
- 1,500
- 7,500

Question # 5 of 15 (Start time: 07:37:53 AM) Total Marks: 1

Which of the following terms refers to the process of systematic investigation of the effects on estimates or outcomes of changes in data or parameter inputs or assumptions to evaluate a capital project?

Select correct option:

- Fundamental Analysis
- Sensitivity Analysis**
- Technical Analysis
- Trend Analysis

Question # 6 of 15 (Start time: 07:38:06 AM) Total Marks: 1

Which of the following factor determines the financial viability of a project?

Select correct option:

- Future Profits
- Future Cash flows**
- Sunk Cost
- None of the given option

Question # 7 of 15 (Start time: 07:38:13 AM) Total Marks: 1

Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?

Select correct option:

- The company's taxes increased.
- The company's depreciation expense declined.**
- The company's operating income declined.
- All of the given statements are correct.

Question # 8 of 15 (Start time: 07:38:18 AM) Total Marks: 1

Which of the following stock would provide a regular income to the investors?

Select correct option:

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Growth stock
Income stock
Aggressive stock
Defensive stock

Question # 9 of 15 (Start time: 07:38:24 AM) Total Marks: 1

Holding everything else constant, increasing fixed costs _____ the firm's break-even point.

Select correct option:

Decreases
Increases the covariance of
Increases
Does not affect

Question # 10 of 15 (Start time: 07:38:30 AM) Total Marks: 1

You plan to deposit Rs.400 at the end of each year for 16 years in an account that pays 9 percent compounded annually. The terminal value at the end of the 16 year period is closest to:

Select correct option:

Rs.13,201
Rs.17,667
Rs.9,634
Rs.19,329.

Question # 11 of 15 (Start time: 07:38:36 AM) Total Marks: 1

Which of the following statements is TRUE regarding Profitability Index?

Select correct option:

It ignores time value of money
It ignores future cash flows
It ignores the scale of investment
It ignores return on investment

Question # 12 of 15 (Start time: 07:38:42 AM) Total Marks: 1

Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:

Select correct option:

S-corporation.

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Partnership.
Corporation
Sole proprietorship

Question # 13 of 15 (Start time: 07:38:48 AM) Total Marks: 1

Suppose you need the present value interest factor for 12 percent compounded quarterly for 10 years. If all you have is a PVIF table, you would use the _____ period row and the _____ percent rate column.

Select correct option:

- 40, 12
- 20, 12
- 40, 3**
- 20, 6

Question # 14 of 15 (Start time: 07:38:53 AM) Total Marks: 1

Which of the following is the Dividend Payout ratio for a common stock?

Select correct option:

- Dividend per share: Market value per share
- Earning per share: Intrinsic value per share
- Dividend per share: Earning per share**
- Market value per share: intrinsic value per share

Question # 15 of 15 (Start time: 07:39:00 AM) Total Marks: 1

Which of the following may be a major reason for hard capital rationing?

Select correct option:

- Dilution of earning per share (EPS)
- High interest expense
- High interest rate**
- Company own policies

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