

Paper # 1

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

Why companies invest in projects with negative NPV?

- Because there is hidden value in each project page 52
- Because they have chance of rapid growth
- Because they have invested a lot
- All of the given options

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

Mutually exclusive means that you can invest in _____ project(s) and having chosen _____ you cannot choose another.

- One; one page 47
- Two; two
- Two; one
- Three; one

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

_____ The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as _____.

- A probability distribution
- The expected return Ref: <http://wps.pearsoned.co.uk>
- The standard deviation
- Coefficient of variation

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

_____ A set of possible values that a random variable can assume and their associated probabilities of occurrence are referred to as _____.

- Probability distribution

The expected return

The standard deviation Ref: <http://wps.pearsoned.co.uk>

Coefficient of variation

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

The present value of growth opportunities (PVGO) is equal to

- I) The difference between a stock's price and its no-growth value per share
- II) The stock's price
- III) Zero if its return on equity equals the discount rate
- IV) The net present value of favorable investment opportunities

I and IV

II and IV

I, III, and IV

II, III, and IV

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

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

- . The firm can increase market price and P/E by retaining more earnings
- . The firm can increase market price and P/E by increasing the growth rate
- . **The amount of earnings retained by the firm does not affect market price or the P/E**
- . None of the given options

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

Which of the following would tend to reduce a firm's P/E ratio?

- . The firm significantly decreases financial leverage
- . The firm increases return on equity for the long term
- . **The level of inflation is expected to increase to double-digit levels**
- . The rate of return on Treasury bills decreases

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

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

- . An anticipated earnings growth rate which is less than that of the average firm
- . **A dividend yield which is less than that of the average firm**

- . Less predictable earnings growth than that of the average firm
- . Greater cyclical growth of earnings than that of the average firm

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

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- . Real risk-free rate
- . Risk premium for stocks
- . **Return on assets**
- . Expected inflation rate

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

The market capitalization rate on the stock of Steel Company is 12%. The expected ROE is 13% and the expected EPS are Rs. 3.60. If the firm's plowback ratio is 50%, what will be the P/E ratio?

- . 7.69
- . 8.33
- . **9.09**
- . 11.11

REF:

$$G = ROE \cdot b = 0.065; b = 0.50$$

$$K = 0.12$$

$$(1 - b)/K - G = 0.50/0.055 = 9.09$$

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

How dividend yield on a stock is similar to the current yield on a bond?

- . Both represent how much each security's price will increase in a year
- . **Both represent the security's annual income divided by its price**
- . Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- . Both incorporate the par value in their calculation

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

Tech Company has an expected ROE of 10%. The dividend growth rate will be _____ if the firm follows a policy of paying 40% of earnings in the form of dividends. Low

6.0%

4.8%

7.2%

3.0%

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

value of direct claim security is derived from which of the following?

Fundamental analysis

Underlying real asset page 63

Supply and demand of securities in the market

All of the given options

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

Which of the following value of the shares changes with investor's perception about the company's future and supply and demand situation?

Par value page 74

Market value

Intrinsic value

Face value

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

How efficient portfolios of "N" risky securities are formed?

These are formed with the securities that have the highest rates of return regardless of their standard deviations

They have the highest risk and rates of return and the highest standard deviations

They are selected from those securities with the lowest standard deviations regardless of their returns

They have the highest rates of return for a given level of risk Ref: <http://highered.mcgraw-hill.com>

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

When a bond will sell at a discount?

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity

The coupon rate is greater than yield to maturity

The coupon rate is less than the current yield and the current yield is greater than the yield to

maturity

The coupon rate is less than the current yield and the current yield is less than yield to maturity

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

Which of the following is a characteristic of a coupon bond?

Pays interest on a regular basis (typically every six months)

Does not pay interest on a regular basis but pays a lump sum at maturity

Can always be converted into a specific number of shares of common stock in the issuing company

Always sells at par

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

A coupon bond pays annual interest, has a par value of Rs.1,000, matures in 4 years, has a coupon rate of 10%, and has a yield to maturity of 12%. What is the current yield on this bond?

10.65%

10.45%

10.95%

10.52%

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

If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

7.00

6.53

8.53

7.18

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

Interest rate risk for long term bonds is more than the interest rate risk for short term bonds provided the _____ for the bonds is similar.

Interest rate risk

Market rate

Coupon rate page 68

Inflation rate

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

When market is offering lower rate of return than the bond, the bond becomes valuable, with respect to the given scenario which of the following is correct?

Market interest rate < coupon interest rate, market value of bond is > par value page 68

Market interest rate > coupon interest rate, market value of bond is > par value

Market interest rate < coupon interest rate, market value of bond is < par value

Market interest rate = coupon interest rate, market value of bond is > par value

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

Which of the following affects the price of the bond?

Market interest rate

Required rate of return

Interest rate risk

All of the given options

REF: <http://www.mfea.com/NewsCommentary/fundfocus/BondFunds/Fidelity2.asp>

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

Bond is a type of Direct Claim Security whose value is **NOT** secured by _____.

Tangible assets

Intangible assets page 64

Fixed assets

Real assets

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

_____ is a long-term, unsecured debt instrument with a lower claim on assets and income than other classes of debt.

A subordinated debenture

A debenture

A junk bond

An income bond

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

A
12% coupon rate, Rs.1,000 par bond currently trades at 90 one year after issuance. Which of the following is the most likely call price?

- Rs. 87
- Rs. 90
- Rs. 102
- Rs. 112

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

Which of the following is a legal agreement between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?

- Indenture page 64
- Debenture
- Bond
- Bond trustee

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

Companies and individuals running different types of businesses have to make the choices of the asset according to which of the following?

- Life span of the project
- Validity of the project
- Cost of the capital
- Return on asset

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

Which of the following technique would be used for a project that has non-normal cash flows?

- Internal rate of return
- Multiple internal rate of return
- Modified internal rate of return
- Net present value

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

Why net present value is the most important criteria for selecting the project in capital budgeting?

Because it has a direct link with the shareholders dividends maximization

Because it has direct link with shareholders wealth maximization

Because it helps in quick judgment regarding the investment in real assets

Because we have a simple formula to calculate the cash flows

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

From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

Cash flow from financing activity

Cash flow from operating activity

Cash flow from investing activity

All of the given options

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

investment proposal should be judged in whether or not it provides:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

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

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

Rs.253 million

Rs.323 million

Rs.380 million

Rs.180 million

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

8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Rs.109.39

Rs.147.36

Rs.154.73

Rs.99.74

REF: $\$1,000 = (R)(FVIFA \text{ at } 5\% \text{ for } 8 \text{ periods})(1.05) = (R)(9.549^{\text{taken from table}})(1.05) = (R)(10.026) = (\$1,000)/(10.026) = 99.74$

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

As interest rates go up, the present value of a stream of fixed cash flows _____.

Goes down

Goes up

Stays the same

Can not be found

REF: <http://www.financeprofessor.com/tests/timevalueofmoneytest1c.htm>

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

An annuity due is always worth _____ a comparable annuity.

Less than

More than

Equal to

Can not be found

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

What is the present value of an annuity that pays 100 per year for 10 years if the required rate of return is 7%?

Rs.1000

Rs.702.40

Rs.545.45

Rs.13,816

REF:

$$PV = FV * \left[\frac{1 - (1+i)^{-n}}{i} \right] = 1,000 * \left[\frac{1 - 0.5083}{0.07} \right] = 100[7.024] = 702.4$$

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

Which of the following would be considered a cash-flow item from a "financing" activity?

A cash outflow to the government for taxes

A cash outflow to repurchase the firm's own common stock

A cash outflow to lenders as interest

A cash outflow to purchase bonds issued by another company

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

Which group of ratios relates profits to sales and investment?

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

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

Which of the following statements is the least likely to be correct?

- A firm that has a high degree of business risk is less likely to want to incur financial risk
- There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm
- Financial ratios are relevant for making internal comparisons
- It is important to make external comparisons or financial ratios

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

Which of the following statement (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 weaker ROI

The higher the tax rate for a firm, the lower the interest coverage ratio

Paper # 2

Question No: 1 (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 earning at the year end?

Rs.1.00

Rs. 6.00

Rs. 0.50

Rs. 6.50

REF:

Net income/ Number of common shared out standing
 $100,000/200,000 = 0.5$

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

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

Shareholder; manager

Manager; owner

Accountant; bondholder

Shareholder; bondholder

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

Which of the following is equal to the average tax rate?

Total tax liability divided by taxable income

Rate that will be paid on the next dollar of taxable income

Median marginal tax rate

Percentage increase in taxable income from the previous period

REF: http://en.wikipedia.org/wiki/Tax_rate

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

Which of the following would be deductible as an expense on the corporation's income statement?

Interest paid on outstanding bonds

Cash dividends paid on outstanding common stock

Cash dividends paid on outstanding preferred stock

All of the given options

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

_____ In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

Its corresponding base year balance sheet item; its corresponding base year income statement item

Its corresponding base year income statement item; its corresponding base year balance sheet item

Net sales or revenues; total assets
Total assets; net sales or revenues

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

Which group of ratios measures a firm's ability to meet short-term obligations?

- Liquidity ratios
- Debt ratios
- Coverage ratios
- Profitability ratios

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

Which group of ratios relates profits to sales and investment?

- Liquidity ratios
- Debt ratios
- Coverage ratios
- Profitability ratios

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

Interest paid on the original principal borrowed is often referred to as _____

- Compound interest
- Present value
- Simple interest
- Future value

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

_____ If the following are the balance sheet changes, which one of them would represent use of funds by a company?

- Rs. 8,950 decrease in net fixed assets
- Rs. 5,005 decrease in accounts receivable
- Rs. 10,001 increase in accounts payable
- Rs. 12,012 decrease in notes payable

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

_____ In

preparing a forecast balance sheet, it is likely that either cash or _____ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

Retained earnings

Accounts receivable

Shareholders' equity

Notes payable (short-term borrowings)

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

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

$$\begin{aligned}PV &= FV/(1 + r)^n \\ &= 8,000/(1 + 0.11)^3 \\ &= 5850\end{aligned}$$

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

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8%.

Rs.680.58

Rs.1,462.23

Rs.322.69

Rs.401.98

$$\begin{aligned}PV &= FV/(1 + r)^n \\ &= 1,000/(1 + 0.08)^5 \\ &= 680.58\end{aligned}$$

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

As interest rates go up, the present value of a stream of fixed cash flows _____

Goes down

Goes up

Stays the same

Can not be found

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

The benefit we expect from a project is expressed in terms of: _____

Cash in flows

Cash out flows
Cash flows
None of the given options

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

proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

Project A
Project B
Project C
Project A & B

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

If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ▶ Interpolation
- ▶ Dividing 100,000 by 36,000**
- ▶ Dividing 36,000 by 100,000
- ▶ Insufficient information

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

In which of the following situations you can expect multiple answers of IRR?

More than one sign change taking place in cash flow diagram
There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
During the life of project if you have any net cash outflow
All of the given options

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

Which of the following technique would be used for a project that has non-normal cash flows?

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

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

What is the advantage of a longer life of the asset?

Cash flows from the asset becomes non-predictable

Cash flows from the asset becomes more predictable

Cash inflows from the asset becomes more predictable

Cash outflows from the asset becomes more predictable

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

Which one of the following is **NOT** the disadvantage of the asset with very short life?

Money has to be reinvested in some other project with uncertain NPV

Money has to be reinvested in some other project with certain NPV

Money has to be reinvested in some other project with return so risky

None of the given options

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

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

Profitability index (PI)

Net present value (NPV)

Internal rate of return (IRR)

Payback period (PBP)

Profitability index in descending order

payback period in ascending order

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

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

Call in
Call option
Call provision
Put option

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

Which of the following is a characteristic of a coupon bond?

Pays interest on a regular basis (typically every six months)

Does not pay interest on a regular basis but pays a lump sum at maturity
Can always be converted into a specific number of shares of common stock in the issuing company
Always sells at par

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

When a bond will sell at a discount?

The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
The coupon rate is greater than yield to maturity
The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
The coupon rate is less than the current yield and the current yield is less than yield to maturity

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

_____ An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?
Equal to zero
Greater than zero
Equal to the sum of the securities' standard deviations
Equal to -1

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

How efficient portfolios of "N" risky securities are formed?
These are formed with the securities that have the highest rates of return regardless of their standard deviations

They have the highest risk and rates of return and the highest standard deviations
They are selected from those securities with the lowest standard deviations regardless of their returns

They have the highest rates of return for a given level of risk

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

Which of the following is **NOT** an example of hybrid equity?

- Convertible bonds
- Convertible debenture
- Common shares
- Preferred shares

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

The value of dividend is derived from which of the following?

- Cash flow streams
- Capital gain /loss
- Difference between buying & selling price
- All of the given options

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

How dividend yield on a stock is similar to the current yield on a bond?

- Both represent how much each security's price will increase in a year
- Both represent the security's annual income divided by its price
- Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
- Both incorporate the par value in their calculation

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

The market capitalization rate on the stock of Fast Growing Company is 20%. The expected ROE is 22% and the expected EPS is Rs. 6.10. If the firm's plowback ratio is 90%, the P/E ratio will be _____.

- 8.33
- 50.0
- 9.09

7.69

Ref:

K = Capitalization Rate = 20%

Price over earning ratio

Here is formula for (P/E)

$P/E = (1-b) / K-G$

G = growth Rate

where $G = ROE * b$

b = play back ratio. Or retained earning (money which is reinvested in company)

$g = ROE * b = 0.198$

by plugging the values in p/e formula

$(1 - 0.90) / 0.20 - 0.198 = 50$

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

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

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

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicity of earnings growth than that of the average firm

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

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

Systematic risk

Standard deviation

Unsystematic risk

Financial risk

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

© www.vuaskari.com
please contact at ddre14@gmail.com if found any mistake.
send solution and prove with it
effort will be appreciated

When Return is being estimated in % terms, the units of Standard Deviation will be mention in _____.

% page 87

Times

Number of days

All of the given options

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

well-diversified portfolio is defined as:

One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero

One that contains securities from at least three different industry sectors

A portfolio whose factor beta equals 1.0

A portfolio that is equally weighted

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

Which of the following is **NOT** a major cause of unsystematic risk.

New competitors

New product management

Worldwide inflation

Strikes

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

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

Project A dominates project B

Project B dominates project A

Neither project dominates the other in terms of risk and return

Incomplete information

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

Which of the following is a drawback of percentage of sales method?

© www.vuaskari.com

please contact at ddre14@gmail.com if found any mistake.

send solution and prove with it

effort will be appreciated

It is a rough approximation
There is change in fixed asset during the forecasted period
Lumpy assets are not taken into account
All of the given options page 27

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

Which of the following need to be excluded while we calculate the incremental cash flows?

Depreciation
Sunk cost Page 51
Opportunity cost
Non-cash item

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

Why companies invest in projects with negative NPV?

Because there is hidden value in each project page 52
Because they have chance of rapid growth
Because they have invested a lot
All of the given options

PAPER # 3

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

How a company can improve (lower) its debt-to-total asset ratio?

By borrowing more
By shifting short-term to long-term debt
By shifting long-term to short-term debt
By selling common stock

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

Which group of ratios relates profits to sales and investment?

Liquidity ratios
Debt ratios
Coverage ratios
Profitability ratios

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

_____ To increase a given future value, the discount rate should be adjusted _____.

Upward

Downward

First upward and then downward

None of the given options

REF: wps.pearsoned.co.uk/ema_uk_he_wachowicz.../index.html

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

Cash budgets are prepared from past:

Income tax and depreciation data

None of the given options

Balance sheets

Income statements

REF: <http://us.toluna.com/polls/1368289/Cash-budgets-prepared-from-past.htm>

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

_____ A 5-year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Rs.231.91

Rs.184.08

Rs.181.62

Rs.170.44

REF: $1,000 = (R)(FVIFA \text{ at } 8\% \text{ for } 5 \text{ periods}) = (R)(5.867)$

$R = 1000/5.867 = 170.44$

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

Which of the following technique would be used for a project that has non-normal cash flows?

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

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

Why we need Capital rationing?

Because, there are not enough positive NPV projects

Because, companies do not always have access to all of the funds they could make use of page 59

Because, managers find it difficult to decide how to fund projects

Because, banks require very high returns on projects

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

Which of the following is a person or an institution designated by a bond issuer as the official representative of the bondholders?

Indenture

Debenture

Bond

Bond trustee

REF: wps.pearsoned.co.uk/ema_uk_he_wachowicz.../index.html

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

Market price of the bond changes according to which of the following reasons?

Market price changes due to the supply –demand of the bond in the market
Market price changes due to Investor's perception

Market price changes due to change in the interest rate

All of the given options page 67

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

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _____.

An anticipated earnings growth rate which is less than that of the average firm

A dividend yield which is less than that of the average firm

Less predictable earnings growth than that of the average firm

Greater cyclicity of earnings growth than that of the average firm

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

Which of the following would tend to reduce a firm's P/E ratio?

- The firm significantly decreases financial leverage
- The firm increases return on equity for the long term
- The level of inflation is expected to increase to double-digit levels
- The rate of return on Treasury bills decreases

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

Which of the following factors might affect stock returns?

- The business cycle
- Interest rate fluctuations
- Inflation rates
- All of the above

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

_____ are also known as Spontaneous Financing.

Select correct option:

- Current liabilities
- Current assets
- Fixed assets
- Long-term liabilities *Discretionary Financing*

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

While using capital budgeting techniques, the benefits we expect from a project is expressed in terms of:

- Cash in flows
- Cash out flows
- Cash flows
- None of the given options

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

_____ If the probability is written on Y-axis and the rate of return is mentioned on the X-axis, Which kind of relationship it shows when there is higher the standard deviation the higher the risk.

Indirect relationship

No relationship

Direct relationship

Insufficient information

REF: http://en.wikipedia.org/wiki/Direct_relationship

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

summing up the discounted cash flows we can calculate which of the following?

Liquidation value

Intrinsic value page 9

Book value

Market value

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

value at which buyers and sellers are willing to buy and sell any asset is known as

Liquidation value

Book value

Intrinsic value page 9

Market value

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

Which of the following concept says that rupee in your hand today is better than the rupee you are going to get tomorrow?

Risk & return

Time value of money page 19

Net present value

Portfolio diversification

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

Which of the following is a type of annuity in which no time span is involved?

Ordinary annuity

Annuity due

Perpetuity page 35

None of the given options

REF: Perpetuity:

“It is defined as an annuity with an infinite life making continual payments.”

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

Which of the following is the formula to calculate the future value of perpetuity?

Constant cash flows \times interest rate

Constant cash flows / interest rate page 35

Constant cash flows + Constant cash flows \times interest rate

Constant cash flows - Constant cash flows/ interest rate

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

There is _____ relationship between NPV and Economic Value added.

Direct

Indirect

No relationship

Cannot be determined

REF: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/invfables/eva.htm

This connection between economic value added and NPV allows us to link the value of a firm to the economic value added by that firm.

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

_____ If new asset is replaced with old one, the difference between the depreciation of both assets would be:

Useless and nothing to do with the depreciation

Take the percentage of depreciation with new price of asset and then subtract it

Subtracted from cash flows

Added back to cash flows

REF:

The amount of depreciation could also increase if the new asset has a high price, the amount of depreciation charged to the asset would also be high. Since depreciation is a non-cash expense, it has to be **added back to the net profit to get the cash flows**. If the new asset has replaced an old one, the difference between the depreciation of the two **would be added to the cash flows**.

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

_____ The formula which is used for the calculation of equivalent annual annuity is:

$(1+i)^n + 1 / (1+i)^n$

$(1+i)^{n-1} / (1+i)^n$

$(1+i)^n \times (1+i)^n - 1$

$(1+i)^n / (1+i)^n - 1$

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

_____ The responsibility of research & development projects lie with which of the following authority?
Chief executive officer

Divisional heads page 59

Collaborative teams from all departments

Experts are hired to make such decisions

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

_____ Market price of a share will be determined from _____.

Supply of share only

Demand of share only

Price of share of Benchmark Company

From demand and supply in the market

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

_____ Which of the following is the formula to calculate present value under zero growth model for common stock?

$DIV1 / r_{CE}$ page 80

$DIV1 \times r_{CE}$

$DIV1 + r_{CE}$

$DIV1 - r_{CE}$

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

_____ Earning per share can be calculated with the help of which of the following formula?

Net income / number of shares outstanding page 17

Net income – dividend / number of shares outstanding

Operating income / number of shares outstanding

Earning before interest and taxes / number of shares outstanding

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

_____ Which of the following statements is correct relating to the following information?

Stocks A and B each have an expected return of 15% and a standard deviation of 20%. You have a portfolio that consists of 50% A and 50% B.

The portfolio's beta is less than 1.2

The portfolio's expected return is 15%

The portfolio's beta is greater than 1.2

The portfolio's standard deviation is 20%

Paper # 4

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

In finance we refer to the market where existing securities are bought and sold as the _____ market.

Money

Capital

Primary

Secondary

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

In conducting an index analysis every balance sheet item is divided by _____ and every income statement is divided by _____ respectively.

- Its corresponding base year balance sheet item; its corresponding base year income statement item
- Its corresponding base year income statement item; its corresponding base year balance sheet item
- Net sales or revenues; total assets
- Total assets; net sales or revenues

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

To increase a given future value, the discount rate should be adjusted _____

Upward

Downward

First upward and then downward

None of the given options

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

Which of the following investment alternatives would provide the greatest future value for your investment?

10% compounded daily (360 days)

10.5% compounded annually

10.25% compounded quarterly

Incomplete information

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

As interest rates go up, the present value of a stream of fixed cash flows _____.

Goes down

Goes up

Stays the same

Can not be found

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

A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?

Rs.250.44

Rs.231.91

Rs.181.62

Rs.184.08

REF:

$$1,000 = (R)(PVIFA \text{ at } 8\% \text{ for } 5 \text{ years})$$

$$1,000 = (R) 3.993$$

$$R = 1000/3.993 = 250.44$$

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

The basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

Include sunk costs, but ignore opportunity costs

Include opportunity costs, but ignore sunk costs

Ignore both opportunity costs and sunk costs

Include both opportunity and sunk costs

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

Which of the following technique would be used for a project that has non-normal cash flows?

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

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

When coupon bonds are issued, they are typically sold at which of the following value?

Below par

Above par value

At or near par value

At a value unrelated to par

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

Which of the following has **NO** effect when the financial health (cash flows and income) of the company changes with time?

Market value

Price of the share

Par value

None of the given options

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

The value of dividend is derived from which of the following?

Cash flow streams

Capital gain /loss

Difference between buying & selling price

All of the given options

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

Which of the following is (are) true?

- I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return.
- II. A decrease in the dividend growth rate will increase a stock's market value, all else the same.
- III. An increase in the required return on a stock will decrease its market value, all else the same.

I, II, and III

I only

III only

II and III only

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

Diversification can reduce risk by spreading your money across many different

Investments

Markets

Industries

All of the given options page 85

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

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

1.5%

2.0%

3.0%

4.0%

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

When bonds are issued, under which of the following category the value of the bond appears?

Equity
Fixed assets
Short term loan
Long term loan

Question No: 16 (Marks: 1) - Please choose one
_____ means expanding the number of investments which cover different kinds of stocks

Diversification page 94

Standard deviation
Variance
Covariance

Question No: 17 (Marks: 1) - Please choose one
What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11% ?

Rs.5,850

Rs.4,872

Rs.6,725

Rs.1,842

REF: $8000/(1.11)^3 = 5,850$

Question No: 18 (Marks: 1) - Please choose one
By summing up the discounted cash flows we can calculate which of the following?

Liquidation value

Intrinsic value

Book value

Market value

Question No: 19 (Marks: 1) - Please choose one
Which of the following accounting equation is accurate?

Assets + Equity = Liabilities + Expenses

Assets + Expenses = Liabilities + Expenses + Revenue

Assets + Liabilities = Equity + Expenses + Revenue

Assets + Revenue + Liabilities = Equity

Question No: 20 (Marks: 1) - Please choose one
Which of the following equation can represent income statement in best way?

Profit – Expenses = sales revenue

Sales revenue – Expenses = Profit

Assets + Liabilities = Equity

Sales revenue + Equity = Assets

Question No: 21 (Marks: 1) - Please choose one
Which of the following is a type of annuity in which no time span is involved?

Ordinary annuity

Annuity due

Perpetuity

None of the given options

Question No: 22 (Marks: 1) - Please choose one
All of the following are the examples of annuity EXCEPT:

Mortgage payment

Insurance premium

Monthly rental payments

Fixed coupon payments page 34

Question No: 23 (Marks: 1) - Please choose one
_____ is the value of bond, which we expect the bond to be.

Fair value

Book value

Market value

Maturity value

Question No: 24 (Marks: 1) - Please choose one
YTM is equal to which of the following formula?

Capital gain + market price

Present value + interest yield

Market price + interest yield

Interest yield + capital gain yield page 72

Question No: 25 (Marks: 1) - Please choose one
If there is an increase in a firm's expected growth rate then it will cause its required rate of return to_____.

Increase

Decrease

Fluctuate more than before

Possibly increase, decrease, or remain constant

Question No: 26 (Marks: 1) - Please choose one _____ Which
of the following formula could be used to calculate expected rate of return $\langle r \rangle$?

$$\begin{aligned} & P_0 / P_0 \times P_1 \\ & P_1 + P_0 / P_0 \\ & P_1 - P_0 / P_0 \\ & P_0 - P_1 / P_0 \end{aligned}$$

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

This is an example of which of the following concept?

ABC Corporation's stock price has fallen because it was not able to meet its production deadlines.

- Market risk
- Company specific risk
- Industry risk
- Economic risk

REF: tryfinance.com/2/index.html

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

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria, which of the following project is most suitable to accept?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- Project A
- Project B
- Project C
- Project A & B

Paper # 5

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

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- Shareholder; manager
- Manager; owner
- Accountant; bondholder
- Shareholder; bondholder

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

Which group of ratios measures a firm's ability to meet short-term obligations?

Liquidity ratios

Debt ratios

Coverage ratios

Profitability ratios

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

Which of the following would be considered a cash-flow item from an "investing" activity?

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends

Cash outflow to lenders as interest

Cash outflow to purchase bonds issued by another company

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

All of the following influence capital budgeting cash flows EXCEPT

Choice of depreciation method for tax purposes

Economic length of the project

Projected sales (revenues) for the project

Sunk costs of the project

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

An investment proposal should be judged in whether or not it provides:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

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

Which of the following technique would be used for a project that has non-normal cash flows?

Internal rate of return

Multiple internal rate of return

Modified internal rate of return

Net present value

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

Which of the following statements is correct in distinguishing between serial bonds and sinking-fund bonds?

- Serial bonds mature at a variety of dates, but sinking-fund bonds mature at a single date
- Serial bonds provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do not provide for the deliberate retirement of bonds prior to maturity
- Serial bonds do not provide for the deliberate retirement of bonds prior to maturity, but sinking-fund bonds do provide for the deliberate retirement of bonds prior to maturity
- None of the above are correct since a serial bond is identical to a sinking fund bond

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

The value of a bond is directly derived from which of the following?

- Cash flows
- Coupon receipts
- Par recovery at maturity
- All of the given options

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

Which of the following affects the price of the bond?

- Market interest rate
- Required rate of return
- Interest rate risk
- All of the given options

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

If all things equal, when diversification is most effective?

- Securities' returns are positively correlated
- Securities' returns are uncorrelated

Securities' returns are high

Securities' returns are negatively correlated

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

You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

Will be greater than the intrinsic value of stock B

Will be the same as the intrinsic value of stock B

Will be less than the intrinsic value of stock B

None of the given options

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

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

Real risk-free rate

Risk premium for stocks

Return on assets

Expected inflation rate

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

Which of the following is **NOT** a major cause of systematic risk.

A worldwide recession

A world war

World energy supply

Company management change

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

Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?

Sunk cost

Opportunity cost

Externalities

Contingencies

REF:

Externalities in financial terms may be defined as incidental cash flows that arise because of the effect of new project on the existing or running business.

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

A preferred stock will pay a dividend of Rs. 2.75 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 10% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

Rs. 0.275

Rs. 27.50

Rs. 31.82

Rs. 56.25

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

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

Rs.680.58

Rs.1,462.23

Rs.322.69

Rs.401.98

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

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

Rs.25,300

Rs.34,122

Rs.14,549

Rs.11,989

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

The objective of _____ is to maximize the shareholder's wealth.

Financial economics

Financial management

Financial accounting

Financial engineering

REF:

The objective of financial Management, specifically, is to maximize the shareholders wealth in the present terms.

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

Which of the following accounting equation is accurate?

Assets + Equity = Liabilities + Expenses

Assets + Expenses = Liabilities + Expenses + Revenue

Assets + Liabilities = Equity + Expenses + Revenue

Assets + Revenue + Liabilities = Equity

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

Through which of the following formula desired growth rate can be calculated?

Return on equity \times (1- payout ratio)

Return on equity / (1- payout ratio)

Return on equity + (1+ payout ratio)

Return on equity - (1/ payout ratio)

REF:

G (Desired Growth Rate) = return on equity \times (1- pay out ratio)

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

Which of the following is a type of annuity in which no time span is involved?

Ordinary annuity

Annuity due

Perpetuity

None of the given options

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

Which of the following is not a type of problem in capital rationing?

Size difference of projects

Timing difference of projects

Different lives of different projects

Different cash flow streams

REF:

3 Types of Problems in Capital Rationing:

1. Size Difference of cash flows

2. Timing Difference of cash flows

3. Different (or Unequal) Lives of different projects

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

Market price of a share will be determined from _____.

- Supply of share only
- Demand of share only
- Price of share of Benchmark Company
- From demand and supply in the market

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

Which of the following is called hybrid equity as it is the combination of both equity and debt factor?

- Common stocks
- Preferred stocks
- Bonds & securities
- All of the given options

REF:

This kind of Equity is rare. Preferred Shareholders get a preference (or priority) over the Common Shareholders in recovering their money if the company goes bankrupt. Although Preferred Shareholders are owners, they may not get voting rights. It is also known as Hybrid Equity. As it is a Mix of Bond and Share.

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

Which of the following can be used as measure of return?

- Forecasted selling price
- Forecasted purchase price
- Forecasted dividend
- Forecasted time span of project

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

Which of the following formula could be used to calculate expected rate of return $\langle r \rangle$?

- $P_0 / P_0 \times P_1$
- $P_1 + P_0 / P_0$
- $P_1 - P_0 / P_0$
- $P_0 - P_1 / P_0$

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

Finance consists of which of the following area(s)?

Money and capital market
Investment
Financial management
All of the given options

REF:

- 1) Money & Capital markets, which deals with securities markets & financial institutions
- 2) Investments, which focuses on the decisions of both individual and institutional investors as they choose assets for their investment portfolios.
- 3) Financial Management, or business finance which involves the actual management of firms.

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

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria, which of the following project is most suitable to accept?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

Project A
Project B
Project C
Project A & B

Paper # 6

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

Which of the following is equal to the average tax rate?

Total tax liability divided by taxable income

Rate that will be paid on the next dollar of taxable income

Median marginal tax rate

Percentage increase in taxable income from the previous period

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

Which group of ratios measures a firm's ability to meet short-term obligations?

Liquidity ratios

Debt ratios
Coverage ratios
Profitability ratios

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

Assume that the interest rate is greater than zero. Which of the following cash-inflow streams totaling Rs.1,500 would you prefer? The cash flows are listed in order for Year 1, Year 2, and Year 3 respectively.

Rs.700 Rs.500 Rs.300

Rs.300 Rs.500 Rs.700

Rs.500 Rs.500 Rs.500

Any of the above, since they each sum to Rs.1,500

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

Interest paid (earned) on both the original principal borrowed (lent) and previous interest earned is often referred to as _____.

Present value
Simple interest
Future value
Compound interest

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

You are going to invest Rs.12,500 into a certificate of deposit (CD) at a 6% annual rate (compounded annually) with a maturity of 30 months. How much money will you receive when the CD matures?

Rs.14,491

Rs.14,518

Incomplete information

Rs.14,460

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

An 8-year annuity due has a future value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Rs.109.39
Rs.147.36
Rs.154.73
Rs.99.74

REF: $\$1,000 = (R)(FVIFA \text{ at } 5\% \text{ for } 8 \text{ periods})(1.05) = (R)(9.549)(1.05) = (R)(10.026) = (\$1,000)/(10.026) = 99.74$

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

_____ All
of the following influence capital budgeting cash flows **EXCEPT** _____.

Choice of depreciation method for tax purposes
Economic length of the project
Projected sales (revenues) for the project
Sunk costs of the project

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

_____ The
basic capital budgeting principles involved in determining relevant after-tax incremental operating cash flows require us to _____.

Include sunk costs, but ignore opportunity costs
Include opportunity costs, but ignore sunk costs
Ignore both opportunity costs and sunk costs
Include both opportunity and sunk costs

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

_____ From which of the following category would be the cash flow received from sales revenue and other income during the life of the project?

Cash flow from financing activity
Cash flow from operating activity
Cash flow from investing activity
All of the given options

REF:

The relevant cash flows for the period would be the operating cash flows, in the form of cash receipts from sales revenue and other income, as well as cash expenses or payments in the form of operating, marketing and administrative costs.

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

© www.vuaskari.com
please contact at ddre14@gmail.com if found any mistake.
send solution and prove with it
effort will be appreciated

Which one of the following selects the combination of investment proposals that will provide the greatest increase in the value of the firm within the budget ceiling constraint?

- Cash budgeting
- Capital budgeting
- Capital rationing
- Capital expenditure

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

Who is responsible for the decisions relating capital budgeting and capital rationing?

- Chief executive officer
- Junior management
- Division heads
- All of the given option

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

When coupon bonds are issued, they are typically sold at which of the following value?

- Below par
- Above par value
- At or near par value
- At a value unrelated to par

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

Which of the following is **NOT** an example of hybrid equity?

- Convertible bonds
- Convertible debenture
- Common shares
- Preferred shares

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

value of dividend is derived from which of the following?

The

Cash flow streams

Capital gain /loss
Difference between buying & selling price
All of the given options

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

Which of the following is **CORRECT**, if a firm has a required rate of return equal to the ROE?

The firm can increase market price and P/E by retaining more earnings
The firm can increase market price and P/E by increasing the growth rate
The amount of earnings retained by the firm does not affect market price or the P/E
None of the given options

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

When Investors want high plowback ratios?

Whenever $ROE > k$
Whenever $k > ROE$
Only when they are in low tax brackets
Whenever bank interest rates are high

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

Which of the following statement about portfolio statistics is **CORRECT**?

- A portfolio's expected return is a simple weighted average of expected returns of the individual securities comprising the portfolio.**
- A portfolio's standard deviation of return is a simple weighted average of individual security return standard deviations.
- The square root of a portfolio's standard deviation of return equals its variance.
- The square root of a portfolio's standard deviation of return equals its coefficient of variation.

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

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

Systematic risk
Standard deviation

Unsystematic risk

Financial risk

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

Diversification can reduce risk by spreading your money across many different

Investments

Markets

Industries

All of the given options

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

Which of the following is **NOT** a major cause of unsystematic risk.

New competitors

New product management

Worldwide inflation

Strikes

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

Which of the following need to be excluded while we calculate the incremental cash flows?

Depreciation

Sunk cost

Opportunity cost

Non-cash item

REF:

Sunk costs need to be excluded while calculating the incremental cash flows. Sunk costs are the costs that have already incurred in the past.

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

Under which concept it is said that “do not put all your eggs in one basket”?

Risk & return *A safe rupee is worth more than a risky rupee.*

Portfolio diversification *do not put all your eggs in one basket*

Insurance management *Get insurance because you will break some eggs.*

Time value of money *A rupee today is worth more than a rupee tomorrow.*

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

All

of the following are the steps involved in financial planning process **EXCEPT**:

Assumptions are made about future levels of sales, costs, and interest rates etc.

Ratios are projected and analyzed

Projected financial statements are developed

Comparison with key competitors about the prices to be charged

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

Which of the following is NOT the interest rate used for discounting calculation?

Benchmark interest rate

Effective interest rate = $i_{\text{eff}} = [1 + (i_{\text{nom}} / m)]^m$

Periodic interest rate = i_{per}

Nominal interest rate = I_{nom}

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

Suppose you are going to sale an old asset and its market value is greater than its book value it indicates that:

Company is going to have capital gain

Company will have to bear capital loss

Company is going to earn operating revenue

Company has to bear revenue expense

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

Which of the following is not a type of problem in capital rationing?

Size difference of projects

Timing difference of projects

Different lives of different projects

Different cash flow streams

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

In

Pakistan which of the following is assigned to bond rating and risk?

IMF
Moody's
Standard & poor
PACRA

REF:

Bond Ratings & Risk:

Bonds are rated by various Rating Agencies:

Internationally: Moody's, S&P.

In Pakistan: Pacra, VIS.

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

Which of the following statement defines the following events i.e Inflation, recession, and high interest rates?

Systematic risk factors that can be diversified away
Company-specific risk factors that can be diversified away
Among the factors that are responsible for market risk page 91
Irrelevant except to governmental authorities like the Federal Reserve

Paper # 7

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

Which of the following statements is correct for a sole proprietorship?

- The sole proprietor has limited liability
- The sole proprietor can easily dispose of their ownership position relative to a shareholder in a corporation
- **The sole proprietorship can be created more quickly than a corporation**
- The owner of a sole proprietorship faces double taxation unlike the partners in a partnership

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

Which of the following market refers to the market for relatively long-term financial instruments?

Secondary market
Primary market
Money market
Capital market

Question No: 3 (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 percent. What are its sales?

Rs.750Rs.750,000

Rs.48Rs.480, 000

Rs.30Rs.300, 000

Rs.1, Rs.1, 500,000

REF:

(ROI)return on investment / (NPM)net profit margin = (TAT) Total Assets Turnover

$(.08) / (.05) = 1.6$

(TAT) (TA) = Sales

$(1.6) (\$300,000) = \$480,000$

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

investment proposal should be judged in whether or not it provides:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

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

capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Payback period

Internal rate of return

Net present value

Profitability index

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

capital budgeting technique that is **NOT** considered as discounted cash flow method is:

Payback period

Internal rate of return

Net present value

Profitability index

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

Why net present value is the most important criteria for selecting the project in capital budgeting?

Because it has a direct link with the shareholders dividends maximization

Because it has direct link with shareholders wealth maximization page 55

Because it helps in quick judgment regarding the investment in real assets

Because we have a simple formula to calculate the cash flows

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

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

Profitability index (PI)

Net present value (NPV)

Internal rate of return (IRR)

Payback period (PBP)

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

Bond is a type of Direct Claim Security whose value is NOT secured by

Tangible assets

Intangible assets page 63

Fixed assets

Real assets

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

If a 7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

7.00

6.53

8.53

7.18

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

Which of the following is designated by the individual investor's optimal portfolio?

The point of tangency with the opportunity set and the capital allocation line

The point of highest reward to variability ratio in the opportunity set

The point of tangency with the indifference curve and the capital allocation line

The point of the highest reward to variability ratio in the indifference curve

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

Assume that the expected returns of the portfolios are the same but their standard deviations are given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- 1.5%
- 2.0%
- 3.0%
- 4.0%

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

Which of the following is a drawback of percentage of sales method?

- It is a rough approximation
- There is change in fixed asset during the forecasted period
- Lumpy assets are not taken into account
- All of the given options

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

Which of the following need to be excluded while we calculate the incremental cash flows?

- Depreciation
- Sunk cost
- Opportunity cost
- Non-cash item

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

Which of the following is **NOT** an example of a financial intermediary?

- Wisconsin S&L, a savings and loan association
- Strong Capital Appreciation, a mutual fund
- Microsoft Corporation, a software firm
- College Credit, a credit union

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

An 8% coupon Treasury note pays interest on May 30 and November 30 and is traded for settlement on August 15. What is the accrued interest on Rs. 100,000 face value of this note?

- Rs. 491.80
- Rs. 800.00
- Rs. 983.61**
- Rs. 1,661.20

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

A preferred stock will pay a dividend of Rs. 3.50 in the upcoming year, and every year thereafter, i.e., dividends are not expected to grow. You require a return of 11% on this stock. Use the constant growth model to calculate the intrinsic value of this preferred stock.

- Rs. 0.39
- Rs. 0.56
- Rs. 31.82**
- Rs. 56.25

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

Information that goes into _____ can be used to prepare _____

- A forecast balance sheet; a forecast income statement
- Forecast financial statements; a cash budget
- Cash budget; forecast financial statements**
- A forecast income statement; a cash budget

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

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11% compounded annually?

- Rs.5,850**
- Rs.4,872
- Rs.6,725
- Rs.1,842

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

“Do not compare apples with oranges” is the concept in:

- Discounting and Net present value** page 19
- Risk & return

Insurance management
Time value of money

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

Which of the following is NOT the interest rate used for discounting calculation?

Benchmark interest rate

Effective interest rate

Periodic interest rate

Nominal interest rate

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

Which of the following is the formula to calculate the future value of perpetuity?

Constant cash flows \times interest rate

Constant cash flows / interest rate page 35

Constant cash flows + Constant cash flows \times interest rate

Constant cash flows - Constant cash flows/ interest rate

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

Which of the following interest rate keeps on moving and changing on daily basis?

Book value

Market value

Salvage value

Face value

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

From which of the following formula we can calculate coupon rate?

Coupon receipt / market value

Coupon receipt / present value

Coupon receipt / salvage value

Coupon receipt / book value

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

Value of “g” in the formula of constant growth rate can be calculated from which of the following formula?

$g = \text{plowback ratio} \times \text{ROE}$

$g = \text{plowback ratio} \times \text{ROA}$

$g = \text{payout ratio} + \text{ROE}$

$g = \text{payout ratio} + \text{ROA}$

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

_____ In Gordon's formula ($r_{CE} = \text{DIV}_1 / P_0 + g$), r_{CE} is considered as _____ and "g" is considered as _____.

Dividend yield, operating expenses

Dividend yield, operating income

Dividend yield, capital loss

Dividend yield, capital gain page 81

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

_____ To calculate the annual rate of return for an investment, we require which of the following(s)?

The income created

The gain or loss in value

The original value at the beginning of the year

All of the given options

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

_____ This is an example of which of the following?

Real estate prices fell across the board because the market was glutted with surplus pre-owned homes for sale.

Economic risk

Industry risk

Company risk

Market risk

Paper # 8

Question No: 1 (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 percent. What are its sales?

Rs.750, Rs.750,000

Rs.48 Rs.480, 000

Rs.30 Rs.300, 000

Rs.1, Rs.1, 500,000

REF:

(ROI) return on investment / (NPM) net profit margin = (TAT) Total Assets Turnover

$$(.08) / (.05) = 1.6$$
$$(TAT) (TA) = \text{Sales}$$
$$(1.6) (\$300,000) = \$480,000$$

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

Which of the following statements is the least likely to be correct?

A firm that has a high degree of business risk is less likely to want to incur financial risk

There exists little or no negotiation with suppliers of capital regarding the financing needs of the firm

Financial ratios are relevant for making internal comparisons

It is important to make external comparisons or financial ratios

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

The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs. 20,000 you would expect to earn around _____ in interest.

Rs.840

Rs.858

Rs.1,032

Rs.1,121

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

An 8-year annuity due has a present value of Rs.1,000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Rs.154.73

Rs.147.36

Rs.109.39

Rs.104.72

REF: here the word is used "closest" so +R

$$\begin{aligned} \$1,000 &= (R) (PVIFA \\ &\text{at 5\% for 7 periods}) + R = (R)(5.786) + R = (R)(6.786) \\ R &= (\$1,000) / (6.786) = 147.36 \end{aligned}$$

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

ABC Co. will earn Rs. 350 million in cash flow in four years from now. Assuming an 8.5% weighted average cost of capital, what is that cash flow worth today?

Rs.253 million

Rs.323 million

Rs.380 million

Rs.180 million

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

_____ All
of the following influence capital budgeting cash flows **EXCEPT** _____.

Choice of depreciation method for tax purposes

Economic length of the project

Projected sales (revenues) for the project

Sunk costs of the project

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

_____ An
investment proposal should be judged in whether or not it provides:

A return equal to the return require by the investor

A return more than required by investor

A return less than required by investor

A return equal to or more than required by investor

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

_____ In
case of mutually exclusive projects, if two projects are of equal size and have the same life, then:

NPV and MIRR will create the conflict

NPV and MIRR will lead to the same decision

NPV will give the best solution

MIRR will give the best solution

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

_____ Due
to timing difference problem, a good project might suffer from _____ IRR even though its NPV
is _____.

Higher; Lower

Lower; Lower

Lower; Higher

Higher; Higher

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

_____ What type of long-term financing most likely has the following features: 1) it has an infinite life,
2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Long-term debt
Preferred stock
Common stock
None of the given option

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

7% coupon bond is trading for Rs. 975 it has a current yield of _____ percent.

7.00
6.53
8.53
7.18

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

Consider a 5-year bond with a 10% coupon that has a present yield to maturity of 8%. If interest rates remain constant, one year from now, what will be the price of this bond?

Higher
Lower
The same
Rs. 1,000

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

You wish to earn a return of 12% on each of two stocks, A and B. Each of the stocks is expected to pay a dividend of Rs. 2 in the upcoming year. The expected growth rate of dividends is 9% for stock A and 10% for stock B. The intrinsic value of stock A:

Will be greater than the intrinsic value of stock B
Will be the same as the intrinsic value of stock B
Will be less than the intrinsic value of stock B
None of the given options

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

Assume that the expected returns of the portfolios are the same but their standard deviations are

given in the options given below, which of the option represent the most risky portfolio according to standard deviation?

- 1.5%
- 2.0%
- 3.0%
- 4.0%

REF:

S.D is the measure of Risk

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

In which of the following approach you need to bring all the projects to the same length in time?

- MIRR approach
- Going concern approach
- Common life approach page 56
- Equivalent annual approach

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

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8% compounded annually?

- Rs.680.58
- Rs.1,462.23
- Rs.322.69
- Rs.401.98

$$\begin{aligned} PV &= FV/(1+r)^n \\ &= 1,000/(1+0.08)^5 \\ &= 680.58 \end{aligned}$$

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

What is the present value of Rs.53,000 to be paid at the end of 15 years if the interest rate is 9% compounded annually?

- Rs.25,300
- Rs.34,122
- Rs.14,549
- Rs.11,989

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

TFC

is the abbreviation of which of the following?

- Termination for Convenience
- Test for Completion
- Term finance certificate
- Transport Format Combination

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

One

way to increase the shareholder's wealth is to _____.

- Increase the stock price
- Improve goodwill
- Increase amount of debt
- Increase fixed assets

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

Which of the following is used to assess the financial position of a company?

- Financial statements
- Stock price in the market
- Credit worthiness of the company
- Capital structure of the company

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

Through which of the following formula desired growth rate can be calculated?

- Return on equity \times (1- payout ratio)
- Return on equity / (1- payout ratio)
- Return on equity + (1+ payout ratio)
- Return on equity - (1/ payout ratio)

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

Which of the following project should be accepted?

- Project A: Io Rs.2, 000, Return in Yr 1= 850, NPV= 3, 500, IRR = 50%
- Project B: Io Rs.1, 500, Return in Yr 1= 1000, NPV= 450, IRR = 40%
- Project C: Io Rs.200, Return in Yr 1= 150, NPV= 73, IRR = 55%
- Project D: Io Rs.1, 000, Return in Yr 1= 750, NPV= 250, IRR = 55%

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

Which of the following formula is used to calculate the perpetual investment of preferred stock with fixed dividend?

$P_o = \text{DIV1} / r_{PE}$

$P_o = \text{DIV1} \times r_{PE}$

$P_o \times r_{PE} = \text{DIV1}$

$P_o - \text{DIV1} = r_{PE}$

REF:

Perpetual Investment & Constant Div

PV = Present Price = $P_o = \text{DIV1} / r$.

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

Which of the following should be kept in mind while investing in direct claim securities?

Standalone & portfolio risk

Goodwill of the company

Political instability

Rate of return of similar shares

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

Portfolio risk can be defined as:

Overall risk of entire collection of investments

Risk of particular investment as compare to other investment

Risk of political instability within country

Risk of bankruptcy of company making investment

REF:

When we talk about risk in investing in direct claim securities then we need to keep in mind the distinction between Stand Alone Risk (or Single Investment Risk) as oppose to market or Portfolio Risk (or Collection of Investments Risk).

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

When you allocate capital, you choose investments that are more beneficial and less

Diversified

Risky

Costly

Value based

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

With the help of which of the following formula we can calculate coefficient of variation?

Range / variance

Expected return / standard deviation
Variance / standard deviation
Standard deviation / expected return

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

In a portfolio of three randomly selected stocks, which of the following statement is not correct?
Risk of the overall portfolio is less than the risk of each of the stocks if they were held in isolation

The risk of the portfolio is greater than the risk of one or two of the stocks
The beta of the portfolio is lower than the lowest of the three betas
The beta of the portfolio is higher than the highest of the three betas

Some Quizzes

What is the Future Value of Rs. 10,000 invested under continuous compounding for 6 years, assuming the interest rate of 5% per annum? ($e = 2.718$)

Select correct option:

- Rs. 11,498
- Rs. 12,580
- Rs. 13,498
- Rs. 14,699

REF:

$$PV * (e^{1*n}) = 10,000 * (2.718^{0.3}) = 13,498.....$$

Which of the following is type a Temporary Account?

Select correct option:

- Asset
- Liability
- Reserves
- Revenue

REF:

<http://www.answers.com/topic/temporary-account>

Which of the following would be considered a cash-flow item from an "operating" activity?

Select correct option:

- Cash outflow to the government for taxes
- Cash outflow to shareholders as dividends
- Cash inflow to the firm from selling new common equity shares

Cash outflow to purchase bonds issued by another company

Identify the option that best describes the simple rule of a journal entry.

Select correct option:

Sum of Debits = Sum of Credits

Sum of Debits > Sum of Credits

Sum of Debits < Sum of Credits

None of the given options

Which of the following are the approaches used to make two projects with different life spans comparable?

Select correct option:

Modified internal rate of return and equivalent annual annuity

Common life and equivalent annual annuity

Common life and modified internal rate of return

None of the given options

The main objective of 'Financial Accounting' is:

Select correct option:

To maximize profit

To collect accurate & timely the financial data

To maximize shareholders' wealth

To increase sales

Which of the following is NOT a cash outflow for the firm?

Select correct option:

Depreciation

Dividends

Interest

Taxes

Independent projects refer to:

Select correct option:

One can invest in one of the projects and not in both

Cash flows of the two projects are not linked to each other

Cash flows of the two projects are linked to each other

None of the given options

Ref:

Independent: implies that the cash flows of the two investments are not linked to each other.

With continuous compounding at 8 percent for 20 years, what is the approximate future value of a Rs. 20,000 initial investment?

Select correct option:

- Rs.52,000
- Rs.93,219
- Rs.99,061**
- Rs.915,240

REF:

$$PV*(e^{i*n}) = 20,000 * (2.718^{1.6})$$

What is the Future value of 3 payments of Rs. 1,000 when i=4%?

Select correct option:

- Rs. 1,121.60
- Rs. 2,121.60
- Rs. 3,121.60**
- Rs. 4,121.60

REF:

$$FV = PV*(FVIFA_3 \text{ years}) \\ = 1,000 (3.1216) = 3121$$

Which of the following is TRUE about IRR (Internal Rate of Return)?

Select correct option:

- It changes for each and every year over the life of the project
- It remains same for each and every year over the life of the project
- It increases over the life of the project
- It decreases over the life of the project**

Which of the following is the Double Entry Principle?

Select correct option:

- Assets + Liabilities = Shareholders' Equity
- Assets = Liabilities + Shareholders' Equity**
- Liabilities = Assets + Shareholders' Equity
- None of the given options

In financial accounting, assets are recorded on the basis of _____ in the balance sheet.

Select correct option:

- Market value
- Historical value**
- Fair value
- Liquidation value

Which of the following equations is the correct one?

Select correct option:

- Net incremental after tax cash flows = net operating income + depreciation + Tax savings from depreciation + net working capital + other cash flow
- Net incremental after tax cash flows = net operating income - depreciation + Tax savings from depreciation + net working capital + other cash flow
- Net incremental after tax cash flows = net operating income + depreciation - Tax savings from depreciation - net working capital + other cash flow
- Net incremental after tax cash flows = net operating income + depreciation + Tax savings from depreciation + net working capital - other cash flow

REF: page 50

Net incremental after tax cash flows = net operating income + depreciation + Tax savings from depreciation + net working capital + other cash flows

According to timing difference problem a good project might suffer from ___ IRR even though its NPV is _____.

Select correct option:

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

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

- Indenture
- Debenture
- Bond
- Bond trustee

How can a company improve (lower) its debt-to-total asset ratio?

Select correct option:

- By borrowing more
- By shifting short-term to long-term debt
- By shifting long-term to short-term debt
- By selling common stock

Analyze which of the following statements is true regarding characteristic(s) of Perpetuity.

Select the best possible answer in this regard.

Select correct option:

- It is an annuity
- It has no definite end
- It is a constant stream of identical cash flows

All of the given options

_____ are also known as Spontaneous Financing.

Select correct option:

Current liabilities

Current assets

Fixed assets

Long-term liabilities *Discretionary Financing*

The main objective of Financial Accounting is:

Select correct option:

To maximize profit

To collect accurate & timely the financial data

To maximize shareholders' wealth

To increase sales

Which of the following project you will select based on IRR criteria?

Select correct option:

IRR= 10%

IRR= 12%

IRR= 14%

IRR= 16%

ABC Company has launched a new product which has negatively influenced the sales performance of its existing related products. This phenomenon is known as:

Select correct option:

Acquisition

Cannibalization

Re-engineering

Restructuring

REF:

Externalities in financial terms may be defined as incidental cash flows that arise because of the effect of new project on the existing or running business. For instance, if a company adds a new product to its produce line, the launching of the new product can adversely affect the sales revenue of the existing product line. This phenomenon of competition among the brands of the same company is also known as cannibalization.

You are required to identify amount of preferred dividend paid by ABC Company if net income Rs. 1 million; Dividend paid to preferred stockholder 30% of Net Income and number of outstanding common shareholder were 50,000.

Select correct option:

- Rs. 300,000
- Rs. 700,000**
- Rs. 1,000,000
- Rs. 400,000

REF:

Preferred Stock:

It is the stock with a predetermined or fixed dividend. In case, the board of directors announces dividends, the preferred stockholders would have a priority claim on them, i.e., they would be paid dividends before any dividends are paid to the common stockholders. However, if the board opts to retain earnings, the preferred stock would not yield a dividend, and thus cash flows from a preferred dividend are not as certain as income of the bondholders.

So, $1,000,000 * 0.30 = 300,000$

Now, $1,000,000 - 300,000 = 700,000$

Identify the option that best describes the simple rule of a journal entry.

Select correct option:

- Sum of Debits = Sum of Credits**
- Sum of Debits > Sum of Credits
- Sum of Debits < Sum of Credits
- None of the given options

Which of the following refers to the risk associated with interest rate uncertainty?

Select correct option:

- Default risk premium
- Sovereign Risk Premium
- Market risk premium**
- Maturity risk premium

Which of the following refers to the cost of taking up one option while sacrificing the other?

Select correct option:

Opportunity cost

Operating cost
Sunk cost
Floatation cost

Which of the following would be considered a cash-flow item from an "operating" activity?
Select correct option:

Cash outflow to the government for taxes

Cash outflow to shareholders as dividends
Cash inflow to the firm from selling new common equity shares
Cash outflow to purchase bonds issued by another company

What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?
Select correct option:

Long-term debt
Preferred stock
Common stock
None of the given options

Identify the component(s) of working capital management.
Select correct option:

Fixed assets
Current assets and current liabilities
Fixed assets and long-term liabilities
Shareholder's equity

The major difference between floating bond and zero bond is:
Select correct option:

Zero bond is sold on discount where as floating bond is not sold on discount
Both can be sold on discount
Price of floating bond is always greater then the price of zero rate bond
None of these

At the termination of project, which of the following needs to be considered relating to project assets?

Select correct option:

Salvage value

Book value

Intrinsic value

Fair value

REF:

Termination of the project refers to the period when the project life ends. At this time, we need to take into account the salvage value of the project assets, the price at which the assets can be sold out.

Which of the following affects price of the bond?

Select correct option:

Market interest rate

Required rate of return

Interest rate risk

All of the given options

According to timing difference problem a good project might suffer from _____ IRR even though its NPV is _____.

Select correct option:

Higher; lower

Lower; Lower

Lower; higher

Higher; higher

Which of the following is NOT the type of Hybrid organizations?

Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

For Company A, plow back ratio is 30%. What will be its Pay-out ratio?
Select correct option:

- 3.33%
- 30%
- 31%
- 70%**

Which of the following is NOT an example of hybrid equity
Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares**
- Preferred shares

A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?
Select correct option:

- (Rs.100)(FVIFA at 8% for 5 periods)**
- (Rs.100)(FVIFA at 8% for 4 periods)(1.08)
- (Rs.100) (FVIFA at 8% for 5 periods)(1.08)
- (Rs.100)(FVIFA at 8% for 4 periods) + Rs.100

Identify the option that best describes the simple rule of a journal entry.
Select correct option:

- Sum of Debits = Sum of Credits**
- Sum of Debits > Sum of Credits
- Sum of Debits < Sum of Credits
- None of the given options

The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?

Select correct option:

- Operating, investing, and financing**
- Investing, operating, and financing
- Financing, operating and investing

Financing, investing, and operating

The major difference between floating bond and zero bond is:

Select correct option:

Zero bond is sold on discount where as floating bond is not sold on discount

Both can be sold on discount

Price of floating bond is always greater then the price of zero rate bond

None of these

Which of the following refers to bringing the future cash flow to the present time?

Select correct option:

Net present value

Discounting

Opportunity cost

Internal rate of return

Which of the following is an asset in which the possibility of an economic benefit depends solely upon future events that can't be controlled by the company?

Select correct option:

Current asset

Long term asset

Contingent asset

Tangible asset

Miss Hamna purchased government bonds of Rs. 2,000 which guaranteed 2% interest annually. It means there is no risk because there is:

Select correct option:

No variability in risk

Higher variability in risk

No variability in return

Higher variability in return

Which of the following is NOT the type of Hybrid organizations?

Select correct option:

S-Type Corporation

Limited Liability Partnership

Sole Proprietorship

Professional Corporation

Which of the following are known as Discretionary Financing?

Select correct option:

Current liabilities
Current assets
Fixed assets
Long-term liabilities

While calculating the YTM, bond that sells at price other than par, YTM is equal to interest yield plus

Select correct option:

Negative or positive capital margin
Negative or Positive capital gain
Negative or Positive capital premium
Negative or Positive capital discount

When coupon bonds are issued, they are typically sold at which of the following value?

Select correct option:

Above par value
Below par
At or near par value
At a value unrelated to par

Which of the following is calculated by summing up the discounted future cash flows?

Select correct option:

Market value
Historical value
Fair value
Liquidation value

The pay out ratio of XYZ Company is 30%. What is its Plow back ratio?

Select correct option:

100%
70%
30%
130%

If Net Present Value technique is used, what is the minimum acceptance criterion for a project?

Select correct option:

NPV < 0
NPV = 0
NPV > 0
NPV ≤ 0

Why companies invest in projects with negative NPV?

Select correct option:

- Because there is hidden value in each project
- Because there may be chance of rapid growth
- Because they have invested a lot
- All of the given options

Which of the following is NOT an example of hybrid equity

Select correct option:

- Convertible Bonds
- Convertible Debenture
- Common shares
- Preferred shares

How "Shareholder wealth" is represented 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

You are required to identify the Earning per share of Bin Shafiq if net income Rs. 1 million; dividend paid to preferred stockholder 30 % of net income and number of outstanding common shareholder were 50,000.

Select correct option:

- Rs. 14.00
- Rs. 6.00
- Rs. 41.00
- Required more information

Ref:

$$1,000,000 = 1 \text{ million}$$
$$(1,000,000/50,000)*0.30 = 6$$

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

- Capital market
- Efficient market
- Money market
- Real asset market

Mutually Exclusive projects refer to what?

Select correct option:

One can invest in one of the projects and not in both

One can invest in both projects

Cash flows of the two projects are not linked to each other

Cash flows of the two projects are linked to each other

Total portfolio risk is _____.

Select correct option:

Equal to systematic risk plus non-diversifiable risk

Equal to avoidable risk plus diversifiable risk

Equal to systematic risk plus unavoidable risk

Equal to systematic risk plus diversifiable risk

MIRR (discount rate) equates which of the following?

Select correct option:

Future value of cash inflows to the present value of cash outflows

Future value of cash flows to the present value of cash flows

Future value of all cash flows to zero

Present value of all cash flows to zero

REF:

The MIRR represents the discount rate, which will equate the Future Value of cash inflows to Present Value of cash outflows.

Formula:

$$=CF_{in} * \frac{(1+k)^{n-t}}{CF_{out} / (1+k)^t}$$

Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?

Select correct option:

Indenture

Debenture

Bond

Bond trustee

Which of the following refers to a highly competitive market where good business ideas are taken up immediately?

Select correct option:

Capital market

Efficient market

Money market
Real asset market

Discounted cash flow methods provide a more objective basis for evaluating and selecting an investment project. These methods take into account:

Select correct option:

- Magnitude of expected cash flows
- Timing of expected cash flows
- Both timing and magnitude of cash flows**
- None of the given options

If ABC Company is taking legal action against a third party for breach of contract and its lawyers are confident of winning this case as well as receiving compensation, then this would be reported as _____ by ABC Company.

Select correct option:

- Current asset
- Long term asset
- Contingent asset**
- Tangible asset

REF:

There are also long-term assets (property, loans given) and **contingent assets, the value of which can only be assessed in future (legal claim pending, option).**

Which of the following is NOT true regarding an annuity due?

Select correct option:

- It is a series of equal cash flows (this is annuity due)
- It is also known as deferred annuity**
- Cash flows occur for a specific time period (this is annuity due)
- Payments are made at the start of each period (this is annuity due)

When bonds are issued, under which of the following category the value of the bond appears?

Select correct option:

- Equity
- Fixed assets
- Short term loan
- Long term loan**

In percentage of sales method, which of the following current assets do not generally grow in proportion to Sales?

Select correct option:

- Accounts receivable and inventory
- Marketable securities and prepaid expenses** Current Assets
- Cash and accounts receivable
- Accounts receivable and prepaid expenses

What is the value of Rs. 2,000 discounted back for 2 years at 4 percent compounded annually?

Select correct option:

- Rs.1,849**
- Rs.2,163
- Rs.2,160
- None of the given options

PV = 1849

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's initial cash outflow is known as:

Select correct option:

- Payback period
- Internal rate of return**
- Net present value
- Profitability index

Why the treasury bonds are not riskless?

Select correct option:

- Government can default during the maturity of bond**
- Sometimes due to insurgency government doesn't pay the coupon
- Because bond prices decline when rate of interest increases
- There is a positive relationship between bond prices and interest rate

Balance Sheet of a company reflects:

Select correct option:

- Operating efficiency or profitability of a company
- Organization's financial health at a specific point of time**
- Cash movement during operations in an accounting period
- Share of the owners in the business

Which of the following equation is NOT correct?

Select correct option:

Gross Revenue – Admin & Operating Expenses = Operating Revenue

Other Expenses + Other Revenue = EBIT

EBIT – Financial Charges & Interest = EBT

Net Income – Dividends = Retained Earning

REF:

Operating Revenue – Other Expenses + Other Revenue = EBIT

What additional risk exists if investor invests in foreign bonds?

Select correct option:

Additional cost involve due to cross boundaries arrangements

Bonds are dominated in currency other then investor's home currency

Foreign governments are not much reliable due to different laws

Market risk of foreign government is fluctuating drastically

Which of the following is not a Real asset?

Select correct option:

Equipments

Wheat

Computers

Bonds

www.vuaskari.com