

ACC501 All Solved Mid Term MCQs

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*Choose the Most Appropriate Answer among the given choices.*

**1. The difference between the return on a risky investment and that on a risk-free investment.**

- A. Risk Return
- B. **Risk Premium**
- C. Risk Factor
- D. None of the above

**2. A group of assets such as stocks and bonds held by an investor.**

- A. **Portfolio**
- B. Capital Structure
- C. Budget
- D. None of the above

**3. If the variance or standard deviation is larger then the spread in returns will be:**

- A. Less
- B. **More**
- C. Same
- D. None of the Above

**4. The following risk is entirely wiped out by Diversification.**

- A. Systematic Risk
- B. **Unsystematic Risk**
- C. Portfolio Risk
- D. Total Risk

**5. The objective for using the concept of Diversification is to :**

- A. Minimize the Risk
- B. Maximize the return
- C. **A & B**
- D. None of the Above

**6. While studying the relationship in risk and return, It is commonly known that:**

- A. Higher the risk, lower the return
- B. Lower the risk, higher the return
- C. **Higher the risk, higher the return**

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D. None of the above

7. This type of risk affects almost all types of assets.

- A. **Systematic Risk**
- B. Unsystematic Risk
- C. Total Risk
- D. Portfolio Risk

MCQ # 08 – 10 are based on the following data:

Suppose you bought 1,500 shares of a corporation at Rs. 25 each. After a year, you received Rs. 3000 (Rs. 2 per share) in dividends. At the end of year the stock sells for Rs. 30 each. If you sell the stock at the end of the year, your total cash inflow will be Rs. 48,000 (1500 shares @ 30 each = Rs. 45000 & Dividend = 3000).

8. According to the given data, the Capital Gain will be:

- A. 10,500
- B. **7,500**
- C. 10,000
- D. 7,000

9. According to the given data, the Dividend yield will be:

- A. 8.50 %
- B. 6.25%
- C. **8.00%**
- D. 6.67%

10. According to the given data, Total Percentage Returns will be:

- A. 20%
- B. **28%**
- C. 32%
- D. 35%

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1. Which one of the given options involves the sale of new securities from the issuing company to general public?

- A. Secondary market
- B. **Primary market**

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- C. Capital market  
D. Money market
2. In financial statement analysis, shareholders focus will be on the:
- A. Liquidity of the firm  
B. Long term cash flow of the firm  
C. Profitability and long term health of the firm  
D. Return on investment
3. The statement of cash flows helps users to assess and identify all of the following except:
- A. The impact of buying and selling fixed assets.  
B. The company's ability to pay debts, interest and dividends.  
C. A company's need for external financing.  
D. The company's reliance on capital leases.
4. Suppose Younas Corporation has balance of merchandise of 5000 units. It wants to sell 2000 units at 90% of its cost on cash. What would be the affect of this transaction on the current ratio?
- A. Fall  
B. Rise  
C. Remain unchanged  
D. None of the given option
5. If the interest rate is 18% compounded quarterly, what would be the 8-year discount factor?
- A. 1.42215  
B. 2.75886  
C. 3.75886  
D. 4.08998
6. You have a cash of Rs.150, 000. If a bank offers four different compounding methods for interest, which method would you choose to maximize the value of your Rs.150, 000?
- A. Compounded daily  
B. Compounded quarterly  
C. Compounded semiannually  
D. Compounded annually

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7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?
- A. a.Rs. 200 million
  - B. b.Rs.240 million
  - C. c.Rs.275 million
  - D. d.Rs.290 million
8. Suppose RZ Corporation sales for the year are Rs.150 million. Out of this 20% of the sales are on cash basis while remaining sales are on credit basis. The past experience revealed that the average collection period is 45 days. What would be the receivable turnover ratio?
- A. 6.12 times
  - B. 7.11 times
  - C. 8.11 times
  - D. 9.11 times
9. A bank offers 20% compounded monthly. What would be the effective annual rates of return?
- A. 20.00%
  - B. 20.50%
  - C. 21.00%
  - D. 21.99%
10. Nz Corporation reported earning before interest and taxes of Rs.500, 000 for the current year. It has taken a long term loan of Rs.2 million from a local bank @ 10% interest. The tax is charged at the rate of 32%.What will be the saving in taxes due to presence of debt financing in the capital structure of the firm?
- A. Rs.60, 000
  - B. Rs.64, 000
  - C. Rs.72, 000
  - D. Rs.74, 000

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1. Ntp Corporation has decided to pay Rs.16 per share dividend every year. If this policy is to continue indefinitely, then the value of a share of stock would be -----, if the required rate of return is 25%?

- a. Rs.60
- b. Rs.64
- c. Rs.68
- d. Rs.74

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2. MT Corporation has a previous year dividend of Rs.14 per share where as investors require a 17% return on the similar stocks .The Company's dividend grows by 7%.The price per share in this case would be \_\_\_\_\_.

- a. Rs.149.8
- b. Rs.184.9
- c. Rs.198.4
- d. Rs.229.9

3. RTU Corporation stock is selling for Rs.150 per share. The next dividend is Rs.35 per share and it is expected to grow 14% more or less indefinitely. What would be the return does this stock offer you if this is correct?

- a. 17%
- b. 27%
- c. 37%
- d. 47%

4. Suppose a Corporation has 3 shareholders; Mr.Salman with 25 shares, Mr. Kareem with 35 shares, and Mr.Amjad with 40 shares. Each wants to be elected as one of the six directors. According to cumulative voting rule Mr.Kareem would cast

- a. 150 votes
- b. 210 votes
- c. 240 votes
- d. 300 votes

5. \_\_\_\_\_ is the market in which already issued securities are traded among investors.

- a. Primary market
- b. Secondary market
- c. Financial market
- d. Capital market

6. Suppose Mehran Corporation is dealing in the Automobile industry. Based on projected costs and sales, it expects that the cash flows over the 3-year life of the project will be Rs.5, 000,000 in first year, Rs.7, 000,000 in the next year and Rs.8, 000,000 in the last year. This project would cost about Rs. 10,000,000.The net present value of the project would be \_\_\_\_\_, if discount rate is assumed to be 25%.

- a. Rs.2, 576, 000
- b. Rs.3, 576, 000

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- c. Rs.1, 576, 000
- d. Rs.4, 576, 000

7. The Projected cash flows from a proposed investment are

Year	Cash Flows
01	Rs.500,000
02	Rs.800,000
03	Rs.600,000

The projects costs are Rs.1, 500,000. The payback period for this investment would be \_\_\_\_\_.

- a. 1.50 years
- b. 2.00 years
- c. 2.33 years
- d. 3.00 years

8. Suppose Z Corporation, has the present value of its future cash flows is Rs.450, 000 and the project has a cost of Rs.300, 000, then the profitability index would be \_\_\_\_\_.

- a. 0.667
- b. 1
- c. 1.25
- d. 1.50

9. Fee paid to the consultant for evaluating the project is an example of \_\_\_\_\_.

- a. Opportunity cost
- b. Sunk cost
- c. Decremental cost
- d. None of the given option

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10. If the sales of the AB corporation is Rs.20, 000,000 where as its cost is Rs.12, 000,000 during the same period. Assume the annual tax rate is 37%.Its annual depreciation is Rs.5, 000, 000.The operating cash flow of the organization would be \_\_\_\_\_.

- a. Rs. 3,810,000
- b. Rs. 4,810,000
- c. Rs. 5,190,000
- d. Rs. 6,890,000

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Select the correct option form the following choices:

1. Treasury notes and bonds are:
  - a. Default free
  - b. Taxable
  - c. Highly liquid
  - d. **All of the given options**
  
2. The difference between an investment's market value and its cost is called the \_\_\_\_\_ of the investment.
  - a. **Net present value**
  - b. Economic value
  - c. Book value
  - d. Future value
  
3. When real rate is high, all the interest rates tend to be \_\_\_\_\_.
  - a. **Higher**
  - b. Lower
  - c. Constant
  - d. None of the given options
  
4. \_\_\_\_\_ is a grant of authority by a shareholder to someone else to vote the shareholder's share.
  - a. Cumulative voting
  - b. Straight voting
  - c. **Proxy voting**
  - d. None of the given options
  
5. The payment of the dividend is at the discretion of the:
  - a. Chairman
  - b. **Board of directors**
  - c. Shareholders
  - d. Stakeholders
  
6. Based on \_\_\_\_\_ the investment is accepted if the \_\_\_\_\_ exceeds the required return. It should be rejected otherwise.
  - a. Profitability index
  - b. Payback period
  - c. **Internal rate of return**
  - d. Net present value
  
7. If two investments are mutually exclusive, then taking one of them means that:
  - a. **We cannot take the other one**
  - b. The other is pending for the next period
  - c. The projects are independent
  - d. None of the given options

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8. Profitability index (PI) rule is to take an investment, if the index exceeds \_\_\_\_\_:
- a. -1
  - b. 0
  - c. 1
  - d. All of the given options
9. Average Accounting Return is a measure of accounting profit relative to:
- a. **Book value**
  - b. Intrinsic value
  - c. Cost
  - d. Market value
10. It is not unusual for a project to have side or spillover effects both good and bad. This phenomenon is called:
- a. Erosion
  - b. Piracy
  - c. Cannibalism
  - d. **All of the given options**

1. The average time between purchasing or acquiring inventory and receiving cash proceeds from its sale is called -----.

a) **Operating Cycle**

- b) Cash Cycle
- c) Receivable period
- d) Inventory period

2. Which of the following does not affect cash cycle of a company?

- a) Inventory period
- b) Accounts receivable period
- c) Accounts payable turnover
- d) **None of the given option**

3. Mr. Munir purchased goods of Rs.100,000 on June 01, 2006 from Zeeshan and brothers on credit terms of 3/10, net 30. On June 09 Mr. Munir decided to make payment to Zeeshan and brothers. How much he would pay to Zeeshan and brothers.

- a) 100,000
- b) **97,000**
- c) 103,000
- d) 50,000

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4. A firm has cash cycle of 100 days. It has an inventory turnover of 5 and receivable turnover of 2. What would be its accounts payable turn over?
- a) 3.347 approximately
  - b) 5.347 approximately
  - c) 2.347 approximately**
  - d) 6.253 approximately
5. During the financial year 2005-2006 ended on June 30, the cash cycle of Climax company was 150 days, and its payable turnover was 5. What was the operating cycle of the company during 2005-2006?
- a) 234 days
  - b) 223 days**
  - c) 245 days
  - d) 230 days
6. Which of the following is the cheapest source of financing available to a firm?
- a) Bank loan
  - b) Commercial papers
  - c) Trade credit**
  - d) None of the given options.
7. Which of the following illustrates the use of a hedging (or matching) approach to financing?
- a) Short-term assets financed with long-term liabilities.
  - b) Permanent working capital financed with long-term liabilities.**
  - c) Short-term assets financed with equity.
  - d) All assets financed with a 50 percent equity, 50 percent long-term debt mixture
8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.
- a) Cash discount**
  - b) Quantity discount
  - c) Float discount
  - d) All of the given options
9. If a firm has a net float less than zero, then which of the following statements is true about the firm.
- a) The firm's disbursement float is less than its collection float.**
  - b) The firm's collection float is equal to zero.
  - c) The firm's collection float is less than its disbursement float.
  - d) None of the given options.
10. Financing a long-lived asset with short-term financing would be

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- a) An example of "moderate risk -- moderate (potential) profitability" asset financing.
- b) An example of "low risk -- low (potential) profitability" asset financing.
- c) An example of "high risk -- high (potential) profitability" asset financing.**
- d) An example of the "hedging approach" to financing

**Note: Correct options have been highlighted.**

1. Suppose Flatiron Corporation has a debt-to- equity ratio of  $\frac{2}{3}$ . You are analyzing the capital structure of this Corporation. Base on debt-to- equity ratio of the corporation, how much portion of the capital structure is financed through equity.
  - a) 66.67%
  - b) 33.34%
  - c) 0%
  - d) 60%**
  
2. Suppose the common stocks of Bonanza Corporation have book value of \$29 per share. The market price of these common stocks is \$69.50 per share. The corporation paid \$5.396 per share in dividend last year and analysts estimate that this dividend will grow at a rate of 6% through the next three years. Using the dividend growth model, estimated cost of equity of Bonanza corporation would be
  - a) 11.15%
  - b) 16.13%
  - c) 15.80%**
  - d) 13.14%
  
3. Which statement is true about the relationship between weighted average cost of capital and value of a firm in the eyes of investors?
  - a) They have a direct relationship
  - b) They have an indirect relationship**
  - c) They have spontaneous relationship
  - d) None of the given options
  
4. ----- refers to the extent to which fixed-income securities (debt and preferred stock) are used in a firm's capital structure.
  - a) Financial risk**
  - b) Portfolio risk
  - c) Operating risk
  - d) Market risk

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5. Let's imagine that Sony Corporation currently uses no-debt financing, it has decided to go for capital restructuring. As result it would incorporate \$ 1 billion of debt at 6.6% p.a in its capital structure. Sony Corporation has 30 million Shares outstanding and the price per share is \$ 125. If the restructuring is expected to increase EPS, what would be the minimum level of EBIT that Sony management must be expecting?
- a) \$202,200,000
  - b) \$247,500,000**
  - c) \$283,500,000
  - d) \$321,250,000
6. A corporation has WACC of 13.5 %( excluding taxes). The current borrowing rate in the market is 9.25%.If the corporation has a target capital structure of 65% equity (there is no preferred stock in the capital structure of the corporation) and 35% debt, what would be the cost of equity of this corporation?
- a) 13.5%
  - b) 17.75%
  - c) 15.79%**
  - d) 17.13%
7. Suppose Dux Corporation has current assets of \$44 Million. Cash is 25% of the total current assets. After one year the cash item increase by 12%.This increase in cash item is a
- a) Source of cash
  - b) Use of cash
  - c) Neither of the source of cash nor a use of cash**
  - d) None of the given option
8. During 2005 a merchandize sales company had cash sales of \$56.25 million, which were 15% of the total sales. During this period accounts receivables of the company were 13% of total sales. What was the average collection period of the company during 2005?
- a) 62 days
  - b) 18 days
  - c) 56 days**

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d) 19 days

9. Suppose that Pearson Corporation has a capital structure which consists of both equity and debt. It had issued two million worth of bonds at 6.5 % p.a. The tax rate is 40%. Its EBIT is one million. The present value of tax shield for Pearson corporation would be

a) Rs.1,000,000

b) Rs.1,200,000

**c) Rs800,000**

d) Rs.1,400,000

10. The use of Personal borrowing to alter the degree of financial leverage is called \_\_\_\_\_.

**a) Homemade leverage**

b) Financial leverage

c) Operating leverage

d) None of the given option

*Choose the Most Appropriate Answer among the given choices.*

1. \_\_\_\_\_ refers to the most valuable alternative that is given up if a particular investment is undertaken.

E. Sunk cost

F. **Opportunity cost**

G. Financing cost

H. All of the given options

2. SNT company paid a dividend of Rs. 5 per share last year. The stock's current price is Rs. 50 per share. Assuming that the dividends are estimated to grow steadily at 8% per year, the cost of the capital for SNT company will be?

E. 13.07 %

F. 15.67 %

G. 16.00 %

H. **18.80 %**

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

E. **Portfolio**

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- F. Diversification
- G. Stock Bundle
- H. None of the given options

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

- E. Net Present Value (NPV)
- F. **Profitability Index (PI)**
- G. Average Accounting Return (AAR)
- H. Internal Rate of Return (IRR)

5. If we have Rs. 150 in asset A and Rs. 250 in asset B, then the percentage of asset B in the portfolio will be:

- E. 37.5 %
- F. 47.5 %
- G. **62.5 %**
- H. 72.5 %

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

- E. Systematic Risk
- F. Market Risk
- G. Non-diversifiable Risk
- H. **All of the given options**

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

- E. Systematic Risk
- F. **Unsystematic Risk**
- G. A & B
- H. None of the given options

8. Suppose the initial investment for a project is Rs. 160,000 and the cash flows are Rs. 40,000 in the first year and Rs. 90,000 in the second and Rs. 50,000 in the third. The project will have a payback period of:

- E. **2.6 Years**
- F. 3.1 Years
- G. 3.6 Years
- H. 4.1 Years

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

- E. Dividend Price Model

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**I. Dividend Growth Model**

F. Dividend Policy Model

G. All of the given options

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

E. Most widely used

**J. Ideal to rank the mutually exclusive investments**

F. Easily communicated and understood

G. Can be estimated even without knowing the discount rate

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

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

I. Ordinary Annuity

**J. Perpetuity**

K. Dividend

L. Interest

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

I. 15.00 %

J. 15.34 %

**K. 15.87 %**

L. 16.42 %

**3. A bond represents a \_\_\_\_\_ made by an investor to the \_\_\_\_\_.**

I. loan; receiver

J. dividend; issuer

K. dividend, receiver

**L. loan; issuer**

**4. When the interest rates fall, the bond is worth \_\_\_\_\_.**

**I. More**

J. Less

K. Same

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L. All of the given options.

**5. If SNT Corporation pays out 30% of net income to its shareholders as dividends. What would be the Retention Ratio for SNT Corporation?**

I. 30 %

J. 50 %

K. 70 %

L. 90 %

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**6. If sales are to grow at a rate higher than the sustainable growth rate, the firm must:**

I. Increase Profit Margin

J. Increase Total Assets Turnover

K. Sell new shares

L. All of the given options.

**7. \_\_\_\_\_ is the current value of the future cash flow discounted at an appropriate discount rate.**

I. Present Value

J. Future Value

K. Capital Gain

L. Net Profit

**8. SUMI Inc. has outstanding bonds having a face value of Rs. 500. The promised annual coupon is Rs. 50. The bonds mature in 30 years and the market's required rate on similar bonds is 12% p. a. What would be the present value of each bond?**

K. Rs. 319.45

L. Rs. 390.75

M. Rs. 419.45

N. Rs. 463.75

**9. The sensitivity of Interest Rate Risk of a bond directly depends upon:**

H. Time to maturity

I. Coupon rate

J. A and B

K. None of the given options

**10. An insurance company offers to pay you Rs. 1000 per year if you pay Rs. 6,710 up front. What would be the rate applicable in this 10-year annuity?**

H. 8 %

I. 10 %

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J. 12 %

K. 14 %

**Choose the Most Appropriate Answer among the given choices.**

**1. In the formula  $k_e \geq (D_1/P_0) + g$ , what does  $(D_1/P_0)$  represent?**

- A. The expected capital gains yield from a common stock
- B. The expected dividend yield from a common stock**
- C. The dividend yield from a preferred stock
- D. The interest payment from a bond

**2. If you owned 100 shares of a company and there are three directors to be elected.**

**How much votes you would have as per cumulative voting procedure?**

- A. 100 Votes
- B. 200 Votes
- C. 300 Votes**
- D. 400 Votes

**3. SNT Corporation has policy of paying a Rs. 6 dividend per share every year. If**

**this policy is to continue indefinitely, what will be the value of a share of stock at a**

**15% required rate of return?**

- A. Rs. 30
- B. Rs. 40**
- C. Rs. 50
- D. Rs. 60

**4. Which of the following is NOT a characteristic of preferred stock?**

- A. Dividends on these stocks cannot be cumulative**
- B. These stocks have dividend priority over common stocks
- C. These stocks have stated liquidating value
- D. These bonds hold credit ratings much like bonds

**5. A project has an initial investment of Rs. 400,000. What would be the NPV for the**

**project if it has a profitability index of 1.15?**

- A. Rs. 30000
- B. Rs. 40,500
- C. Rs. 50,000
- D. Rs. 60,000**

6. What will be the proper order of completion regarding the capital budgeting process?

( I ) Perform a post-audit for completed projects;  
( II ) Generate project proposals; ( III ) Estimate appropriate cash flows;  
( IV ) Select value-maximizing projects; ( V ) Evaluate projects.

- A. II, V, III, IV, and I
- B. III, II, V, IV, and I
- C. II, III, V, IV, and I
- D. II, III, IV, V, and I

7. Following are the two cases:

Case I: Mr. A, as a financial consultant, has prepared a feasibility report for a

project for ABC Company that the company is planning to undertake. He has

suggested that the project is feasible.

Case II: Mr. A, as a financial consultant, has prepared a feasibility report of a

project for XYZ Company that the company is planning to undertake. He has

suggested that the project is not feasible.

The consultancy fee paid to Mr. A will be considered as:

- A. Sunk cost in Case I and opportunity cost in Case II
- B. Opportunity cost in Case I and sunk cost in Case II
- C. Sunk Cost in both Case I and Case II
- D. Opportunity cost in both Case I and Case II

8. Suppose you buy some stock for Rs. 35 per share. At the end of the year, the price

is Rs. 43 per share. During the year, you get a Rs. 4 dividend per share.

What will

be the total percentage return?

- A. 22.85 %
- B. 25.16 %
- C. 30.52 %
- D. 34.29 %

9. If you have a portfolio with Rs. 10,000 in asset A and Rs. 15,000 in another asset B

then what will be the weight of Asset B in your portfolio?

- A. 0.30
- B. 0.40
- C. 0.60
- D. 0.75

10. Which of the following set of cash flows represents the change in the firm's total

cash flow that occurs as direct result of accepting the project?

- A. Relevant Cash Flows

**B. Incremental Cash Flows**

**C. Negative Cash Flows**

**D. All of the given option**

*Choose the Most Appropriate Answer among the given choices.*

**1. 2. Time value of money is an important finance concept because:**

- A. It takes risk into account
- B. It takes time into account
- C. It takes compound interest into account
- D. All of the given options**

**2. The present value of a sum of Rs. 100 to be received in the future will be:**

- A. More than Rs. 100
- B. Equal to Rs. 100
- C. Less than Rs. 100**
- D. None of the given options

**3. You want to buy an ordinary annuity that will pay you Rs. 3,000 a year for the next 20 years. You expect annual interest rates will be 8 percent over that time period. The maximum price you would be willing to pay for the annuity will be closest to:**

- A. Rs. 29,454**
- B. Rs. 34,325
- C. Rs. 39,272
- D. Rs. 49,023

**4. You have Rs. 1,000 that you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1,000?**

- A. Compounding quarterly
- B. Compounding monthly**
- C. Compounding semi-annually
- D. Compounding annually

**5. If a bond sells at a high premium, then which of the following relationships hold true?**

- A. Bond Price < Par Value and YTM > coupon rate
- B. Bond Price > Par Value and YTM > coupon rate
- C. Bond Price > Par Value and YTM < coupon rate**
- D. Bond Price < Par Value and YTM < coupon rate

**6. What will be the value to you of a Rs. 2,000 face-value bond with an 8% coupon**

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rate when your required rate of return is 12% and time till maturity is 5 years?

- A. Rs. 1,556
- B. Rs. 1,712**
- C. Rs. 2,082
- D. Rs. 2,420

7. Which of the following carry the provision that within a stipulated time period, the bond may be converted into a certain number of shares of the issuing corporation's common stock at a pre-stated price?

- A. Convertible Bonds**
- B. Income Bonds
- C. Put Bonds
- D. None of the given options

8. Interest rates and bond prices :

- A. Move in the same direction
- B. Move in the opposite direction**
- C. Sometimes move in the same and sometimes in the opposite direction
- D. Have no relation with each other

9. Long-term bonds have \_\_\_\_\_ risk of loss resulting from changes in interest rates than do short-term bonds.

- A. Less
- B. Zero
- C. More**
- D. None of the given options

10. What will be real rate if the nominal rate is 17%, and the inflation rate is 5% ?

- A. 6.639%
- B. 8.251%**
- C. 10.00%
- D. 11.43%

Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time

Which one of the following costs refers to an outlay that has already occurred and hence is not affected by the decision under consideration ?

Select correct option:

- Sunk
- Opportunity

Highlight the correct option:

1) The alternative name used for Interest Coverage Ratio is \_\_\_\_\_.

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- a. Time interest earned
  - b. Cash coverage ratio
  - c. Profit margin ratio
  - d. None of the given option
- 2) If you want to evaluate the performance of an organization, which one of the following ratios will be helpful to you in evaluating the performance of an organization?
- a. Return on short as well as long term investments
  - b. Return on equity and return on debt
  - c. Return on equity and profit margin
  - d. All of the given options
- 3) Imran Corporation is a firm dealing in hardware industry. It sold 5000 units of its product to Mr. Younas for a sum of Rs.150, 000 whose cost was Rs.160, 000.What would be the effect of this transaction on current ratio of the company if the current ratio was 0.80 before this transaction?
- a. Increase
  - b. Decrease
  - c. Remain unchanged
  - d. None of the given option
- 4) Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be \_\_\_\_\_?
- a. 0.38 times
  - b. 0.58 times
  - c. 0.78 times
  - d. 0.98 times
- 5) What would be the level of EBIT if Imran Corporation uses both debt as well as equity financing in its capital structure, it has a cash coverage ratio of 7.5 times, annual interest expense is Rs.1 million and annual depreciation is Rs.3 million?

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- a. Rs. 2.5 million  
b. Rs. 3 million  
c. Rs. 3.5 million  
d. **Rs.4.5 million**
- 6) Suppose, Neumann Corporation has a debt to equity ratio of 0.45 times. Its return on equity is 18%. The return on assets would be \_\_\_\_\_.
- a. 9.414 %  
b. 10.414 %  
c. 11.412 %  
d. **12.414 %**
- 7) Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stackholders. It pays out 30% of its income in the form of dividend. If it pays a total sum of Rs.150 millions as a dividend, then what would be the amount transferred to the retained earning balance from current year profit?
- a. Rs.150 millions  
b. Rs.250 millions  
c. **Rs.350 millions**  
d. Rs.500 millions
- 8) Sian Corporation is one of the largest firms in the electronics industry covering 70% of the market share. During the current year its performance is analysed by judging the various indicators. It has return on assets of 12.5% and retention ratio is 3/5. What would be the internal growth rate of the Sian Corporation?
- a. 12.29%  
b. **14.29%**  
c. 16.29%  
d. 18.92%
- 9) What would be the sustainable growth rate if the Corporation has a Return on equity (ROE) of 20% and a retention ratio of 4/6?
- a. **25 %**

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- b. 35 %
- c. 29%
- d. 45%

10) Rehan Corporation is dealing in agriculture products. Its annual gross sales are Rs.1975 millions. Out of which 34% are on cash basis. Their past collection experiences show that it has an average collection period of 76 days. What would be the balance of accounts receivable at the end of the year?

- a. Rs.251.415 millions
- b. Rs.261.415 millions
- c. **Rs.271.415 millions**
- d. Rs.281.415 millions

Choose and highlight the right option:

1. **ROE in DuPont identity is affected by:**

- a. Operating efficiency
- b. Asset usage efficiency
- c. Financial leverage
- d. All of the given options

2. **A decrease in the percentage of net income paid out as a dividend, will increase the:**

- a. Return on assets ratio
- b. Retention ratio
- c. Leverage ratio
- d. Profit margin

3. **Which of the following does not change Current ratio of a business:**

- a. Efficient usage of current assets
- b. Change in the nature of the firm
- c. Change in Accounting method of the firm
- d. Change in the management of the firm

4. **Present value factor is:**

- a.  $(1+r)^t$
- b.  $(1-r)^t$
- c.  $1/(1+r)^t$
- d.  $1/(1+r)^{1/t}$

5. **Depreciation expense is:**

- a. Operating expense
- b. Investing expense

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- c. *Financing expense*
  - d. *All of the given options*
6. *Internal growth rate tell how rapidly:*
- a. *The firm grows*
  - b. *Sales of the firm grows*
  - c. *Profit of the firm grows*
  - d. *None of the given options*
7. *You can determine the number of periods (n) in a present value calculation, if you know:*
- a. *Future amount*
  - b. *Present value*
  - c. *Interest rate*
  - d. *All of the given options*
8. *Which one of the present value factor is larger?*
- a. *PV of 1 factor for 10%*
  - b. *PV of 1 factor for 12%*
  - c. *Both have the same effect*
  - d. *It cannot be determined*
9. *If we deposit Rs. 5,000 toady in an account paying 10%, how long does it take to grow to Rs. 10,000?*
- a. *5.27 years*
  - b. *6.27 years*
  - c. *7.2 7 years*
  - d. *7.57 years*
10. *The future value of first Rs. 100 in 2 years at 8% discount is:*
- a. *Rs. 116.64*
  - b. *Rs. 111.64*
  - c. *Rs. 164.64*
  - d. *Rs. 164.61*

Total marks: 10

1. *Investing activities include:*

- a. *Purchase of property, plant and equipment*
- b. *Cash received from the issuance of stock or equity in the business.*
- c. *Purchases of stock or other securities (other than cash equivalents)*

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*d. Both a & c*

2. *Changes in cash from financing are "cash in" when:*

- a. Capital is raised*
- b. Assets increased*
- c. Liabilities decreased*
- d. Cash withdrawn*

3. *Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:*

- a. Cash from operations activities*
- b. Cash from financing activities*
- c. Cash from investing activities*
- d. None of the given options*

4. \_\_\_\_\_ *are short-term, temporary investments that can be readily converted into cash.*

- a. marketable securities*
- b. Cash equivalents*
- c. Treasury bills*
- d. All of the given options*

5. *The Cash flow statement records your \_\_\_\_\_ and expenditure at the end of the 'forecast' period.*
- a. Actual cash income*
  - b. Un earned income*
  - c. Coming year income*
  - d. Last year's income*
6. *Ratios look at the relationships between individual values and relate them to how a company:*
- a. Has performed in the past*
  - b. Might perform in the future*
  - c. Both a & b*
  - d. None of the given options*
7. *The current ratio is also known as:*
- a. Working capital ratio*
  - b. Leverage ratio*
  - c. Turnover ratio*
  - d. None of the given options*
8. \_\_\_\_\_ *is concerned with the relationship between the long terms liabilities that a business has and its capital employed.*
- a. Gearing*
  - b. Acid test ratio*
  - c. Working capital management*
  - d. All of the given options*

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9. \_\_\_\_\_ give a picture of a company's ability to generate cash flow and pay it financial obligations:

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

10. Balance sheet items expressed as percentage of:

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

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

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

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

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

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

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

Total tax is \$61,250.

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

- a. 39%
- b. 34%

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- c. 15%
- d. 25%

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

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

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

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

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

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

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

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

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

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

**9. \_\_\_\_\_ is concerned with the branch of economics relating the behavior of principals and their agents.**

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

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d. Social responsibility

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

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

**1. A standardized financial statement presenting all items of the statement as a percentage of total is:**

- a. a common-size statement
- b. an income statement
- c. a cash flow statement
- d. a balance sheet

**2. Ammar is running a company 'Ammar & Co'. He has asked you to comment on company's ability to pay its bills over the short run without undue stress. For this purpose you will study which category of ratios of the company?**

- a. Profitability Ratios
- b. Liquidity ratios
- c. Debt ratios
- d. Turnover ratios

**3. Which one of the given options describes desirable current ratio for a business?**

- e. 0
- f. 0.2
- g. 0.1
- h. At least one

**4. Interest Coverage Ratios are also known as:**

- a. Times Interest Earned (TIE) Ratios
- b. Liquidity Ratios
- c. Debt Ratios
- d. Asset Management Ratios

**5. The Du Pont Identity tells us that Return on Equity is affected by:**

- a. operating efficiency (as measured by profit margin)
- b. asset use efficiency (as measured by total assets turnover)
- c. financial Leverage (as measured by equity multiplier)
- d. all of the given options (a, b and c)

**6. Benchmarking is used to establish a standard to follow for:**

- a. comparison
- b. identification
- c. calculation
- d. liability

**7. A series of constant cash flows that occur at the end of each period for some fixed number of periods is \_\_\_\_\_ .**

- a. an ordinary annuity
- b. annuity due
- c. multiple cash flows
- d. perpetuity

**8. Suppose the total cost of a college education will be \$50,000 in 12 years for a child. The Parents have \$5,000 to invest today. What rate of interest must they earn on investment to cover the cost of child's education?**

- a. 21.15%
- b. 12%
- c. 18%
- d. 30%

**9. If the bank loans out \$10,000 for 90 days at 8% simple interest, the PV is:**

- a. \$9,806.56
- b. \$9000
- c. \$10000
- d. \$9500

**10. Suppose, you deposited an amount of Rs.1000 in Habib Bank at the start of year 2006. How much interest amount will you have at the end of the year if the bank pays simple interest @10% p.a.?**

- a. Rs.100
- b. Rs.10
- c. Rs.90
- d. Rs.1000

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<b>1. _____ is considered as bottom line in Income Statement?</b>
M. Total Assets N. Total Liabilities <b>O. Net Profit</b> P. Gross Profit
<b>2. _____ can be considered as a snapshot of a company's financial position?</b>
M. Income Statement N. <b>Balance Sheet</b> O. Cash Flow Statement P. Owner's Equity Statement
<b>3. _____ involves the sale of used securities from one investor to another?</b>
M. Primary Market N. <b>Secondary Market</b> O. Tertiary Market P. None of the given options
<b>4. _____ Ratios shows a firm's ability to pay its bills in short term?</b>
M. <b>Liquidity</b> N. Financial Leverage O. Profitability P. Market Value
<b>5. The process of planning and managing a firm's long-term investments is called:</b>
M. Planning Process N. Capital Structure O. <b>Capital Budgeting</b> P. Managing Process
<b>6. Income statement for Sumi Inc. shows the net income of Rs. 363,000 whereas the total sales are Rs. 2,311,000. The profit margin for the Sumi Inc. will be:</b>
M. 6.37 %

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<p>N. 8.37 %</p> <p>O. <b>15.7 %</b></p> <p>P. 12.5 %</p>
<p><b>7. S&amp;T Company have 35 thousands shares outstanding and the stock sold for Rs. 99 per share at the end of year. Income Statement reported a net income of Rs. 385,000. The Price Earning Ratio for S&amp;T Company will be:</b></p>
<p>M. 8 times</p> <p>N. <b>9 times</b></p> <p>O. 10 times</p> <p>P. 11 times</p>
<p><b>8. While making Common-Size statement, Balance Sheet items are shown as a percentage of :</b></p>
<p>O. <b>Total Assets</b></p> <p>P. Total Liabilities</p> <p>Q. Total Capital</p> <p>R. Net Profit</p>
<p><b>9. A business, created as a distinct legal entity owned by one or more individuals or entities, is known as:</b></p>
<p>L. Sole Proprietorship</p> <p>M. Partnership</p> <p>N. <b>Corporation</b></p> <p>O. None of the given options</p>
<p><b>10. Which one of these is considered as a non-cash item?</b></p>
<p>L. Inventory</p> <p>M. Accounts Payable</p> <p>N. Accounts Receivable</p> <p>O. <b>Depreciation</b></p>

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