

ACC501 Midterm Solved MCQ's by
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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 (Correct)
- C. Risk Factor
- D. None of the above

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

- A. Minimize the Risk
- B. Maximize the return
- C. A & B (Correct)
- 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 (Correct)
- D. None of the above

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).

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

- A. 10,500
- B. 7,500 $1500 * 5(\text{gain per share}) = 7500$ (Correct)
- C. 10,000
- D. 7,000

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

- A. 8.50 %
 - B. 6.25%
 - C. 8.00% $1500 \times 25 = 37500 / 3000 = 0.08 \square 8\%$ (Correct)
 - D. 6.67%
-

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

- A. 20%
 - B. 28% $(48000 - 37500) / 37500 = 0.28 \square 28\%$ (Correct)
 - C. 32%
 - D. 35%
-

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 page 11 (Correct)
 - 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 page 31 (Correct)
 - 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. (Correct)
-

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 (Correct)
 - 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 $(1 + 0.18/4)^8 \square 1.42215$ (Correct)
 - 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 (Correct)
 - B. Compounded quarterly
 - C. Compounded semiannually
 - D. Compounded annually
-

7. Ali Corporation has a cash coverage ratio of 6.5 times. Whereas its earning before interest and tax is Rs.750 million and interest on long term loan is Rs.160 million. What would be the annual depreciation for the current year?

A. a.Rs. 200 million

B. b.Rs.240 million

C. c.Rs.275 million

D. d.Rs.290 million (Correct)

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% $(1+.20/12)^{12} - 1 \square 0.219 \square 21.99\%$ (Correct)

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 Interest= 2000000*0.10= 200000

Earning after interest = 500000 – 200000= 300000*0.32= 96000

Incse if debt is not taken then tax would be= 500000*.32 = 160000

Difference = 160000 – 96000
= 64000

C. Rs.72, 000

D. Rs.74, 000

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 $16/0.25= 64$ (Correct)

c. Rs.68

d. Rs.74

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

a. Rs.149.8 (Correct)

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% (Correct)

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** (Correct)
- 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** (Correct)
- c. Financial market
- d. Capital market

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** (Correct)
 - 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** (Correct)

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

- a. Opportunity cost
- b. Sunk cost** not sure (Correct)
- c. Decrement cost
- d. None of the given option

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

- _____.
- a. Rs. 3,810,000
 - b. Rs. 4,810,000
 - c. Rs. 5,190,000
 - d. Rs. 6,890,000** (Correct)

Select the correct option form the following choices:

1. Treasury notes and bonds are:

- a. Default free**

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(Correct)

- b. Taxable
 - c. Highly liquid
 - d. All of the given options
-

8. Profitability index (PI) rule is to take an investment, if the index exceeds _____ :

- a. -1
 - b. 0
 - c. 1 (Correct)
 - 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 page 164 (Correct)
 - 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 (Correct)
-

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 $100000 \times .03 = 3000$ $100000 - 3000 = 97000$ (Correct)
 - c) 103,000
 - d) 50,000
-

8. ----- is an incentive offered by a seller to encourage a buyer to pay within a stipulated time.

- a) Cash discount (Correct)
 - b) Quantity discount
 - c) Float discount
 - d) All of the given options
-

1. Suppose Flatiron Corporation has a debt-to- equity ratio of 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% $2/3 = 0.667$ (Correct)
 - b) 33.34%
 - c) 0%
 - d) 60%
-

8. A major disadvantage of the corporate form of organization is the _____.

Inability of the firm to raise large sums of additional capital

Double taxation of dividends (Correct)

Limited liability of shareholders

Limited life of the corporate firm

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

Suppose you can earn a 7.2 percent interest rate per year. According to the rule of 72, it will take approximately _____ years to double your money.

5.00

7.20

10.00

$72/7.2 = 10$ (Correct)

100.0

Rahim Corporation has a cash coverage ratio of 7 times. It's earning before interest and tax is Rs.900 million. It has total assets of Rs.3 billion. The company has a policy of charging 5 % annual depreciation. By using the above information, what would be the interest expense for the year?

90 million

120 million

140 million

150 million

$3 \text{ B} * 0.05 = 150000000$ (Correct)

$(150000000 + 900000000)/7 = 150 \text{ million}$

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

Lets Tulips Corporation has return on assets for the year is 14 % .The Corporation has a policy to retain 40 percent of their income. Then the Corporations internal growth rate would be

5.246 %

5.754 %

5.932 %

6.589 %

If the interest rate is 24 % compounded quarterly, what would be the 5-year discount factor?

3.10585

3.20714 (Correct)

3.50152

3.80153

The bonds are classified as _____ if the maturity of the bond is less than 10 years when issued.

Term finance certificate

Debentures

Notes page 79 (Correct)

None of the given options

_____ is a kind of bond that allows the holder to force the issuer to buy the bond back at a stated price.

Convertible bond

Floating rate bond.

Put bond page 86 (Correct)

None of the given option

Financial institutions facilitate individuals and firms in:

- ? Borrowing
- ? Lending
- ? Pooling of risks

? All of the given options (Correct)

----- are issued by state and local governments.

? Treasury bonds

- ? Municipal bonds
- ? Corporate bonds
- ? Personal bonds

You are expecting to receive Rs.5000 in 3 years. If the interest rate increases, the present value of that future amount to you would:

? Fall (Correct)

- ? Rise
- ? remain unchanged
- ? cannot be determined without more information

_____ is not the function of the treasurer:

- ? Preparation of financial statements
- ? Investor relationships
- ? Cash management

? Obtaining finances doubt

Sara is interested in purchasing Tom's factory. Since Sara is a poor negotiator, she hires Maria to negotiate a purchase price. Identify the parties to this transaction from the given options, according to agency theory:

- ? Sara is the agent.
- ? Maria is the principal.
- ? Tom is the agent and Maria is the principal

? Sara is the principal and Maria is the agent (Correct)

is not an advantage of separation of ownership and management of corporations.

- ? Corporations can exist forever.
- ? Facilitate transfer of ownership without affecting the operations of the firm
- ? Hire professional managers

? Incur agency costs (Correct)

A firm is having difficulty in controlling its operating expenses. Which ratio category in given options will most directly reflect this problem?

- ? Liquidity
- ? Profitability** (Correct)
- ? Market value
- ? Turnover

A firm's investment decision is also called the:

- ? financing decision
- ? capital budgeting decision** page 05 (Correct)

? liquidity decision

? debt financing

Suppose a Corporation has a taxable income of Rs.50000 and the tax amount calculated is as given below:

Rs.30000 x 5% = Rs.1500

(Rs.40000 – 30000) x 10% = 1000

(Rs.50000 – 40000) x 15% = 1500

Rs.4000

Total tax amount is Rs.4000. Average tax rate is $\text{Rs.4000} / 50000 = 8.0\%$. Marginal tax rate will be:

? 39%

? 34%

? 15% (Correct)

? 25%

In context of inflation and returns, the relationship between real and nominal returns is described by:

? Fisher Effect (Correct)

? Ricardo Effect

? Robbins Effect

? Fredrick Effect

The Ratios showing the ability of a firm to pay its bills in short-run are called:

? Leverage Ratios

? Liquidity Ratios (Correct)

? Profitability Ratios

? Market Value Ratios

Evaluating the size, timing and risk of future cash flows is the essence of :

? Capital Budgeting page 04 (Correct)

? Capital Structure

? Inventory Control

? None of the given options

Sumi Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be:

? 0.38 times

? 0.58 times

? 0.78 times page 38 (Correct)

? 0.98 times

_____ involves the sale of used securities from one investor to another.

? Primary Market

? Secondary Market (Correct)

? Tertiary Market

? None of the given options

SNT Corporation paid Rs. 28,900 as tax in 2006. If the tax rate was 34%, what was the taxable income of the corporation during 2006?

? Rs. 90,000

? Rs. 85,000 28900/0.34 □ 85000 (Correct)

? Rs. 65,000

? Rs. 77,000

_____ pays no coupon at all and is offered at a price that is much lower than its stated value.

? Government Bond

? Floating Rate Bond

? Zero Growth Bond if we say it zero coupon bond page 85 (Correct)

? None of the given options

Which of the following statement provides a financial summary of the firm's operating results during a specified period.

? Balance Sheet

? Income Statement (Correct)

? Cash Flow Statement

? Retained Earning Statement

Depreciation expense does not reflect a cash outflow but still shown as an expense on the income statement to serve as a:

? Cash inflow

? Cash outflow

? Tax Shield page 22 (Correct)

? Interest Shield

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as:

? Taxability premium page 90 (Correct)

? Inflation premium

? Interest Rate Risk Premium

? None of the given options

If you invest Rs. 150 in a bank on an interest rate of 14%. How much will you have in your account after 5 years ?

? Rs. 78

? Rs.163

? Rs. 207

? Rs. 289 (Correct)

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of periods is called Perpetuity.

? True

? False (Correct)

A dollar in hand today is worth more than a dollar promised at some time in future.

? True (Correct)

? False

Profit Margin is calculated by dividing Net Income over Sales.

? True page 42 (Correct)

? False

While making Common Size Statements, Balance sheet items are shown as a percentage of total liabilities.

? True page 31 (Correct)

? False

Present value of all the cash inflows can be calculated by compounding each cash flow separately.

? True

? False (Correct)

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 (Correct)

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

A. Rs. 29,454 (Correct)

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 (Correct)

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 (Correct)

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

A. Rs. 1,556

B. Rs. 1,712 (Correct)

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 (Correct)

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 (Correct)

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 (Correct)

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% (Correct)

The alternative name used for Interest Coverage Ratio is _____.

a. Time interest earned (Correct)

b. Cash coverage ratio

c. Profit margin ratio

d. None of the given option

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 (Correct)

d. All of the given options

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 (Correct)

c. Remain unchanged

d. None of the given option

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 (Correct)

d. 0.98 times

- 1) 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?

a. Rs. 2.5 million
b. Rs. 3 million
c. Rs. 3.5 million

d. Rs.4.5 million (Correct)

- 2) 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 % 18/1.45 (Correct)

Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stockholders. 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 $0.3 = 150 / N.I \Rightarrow N.I = 500 \text{ million} \times .70 = 350$ (Correct)

d. Rs.500 millions

- 3) 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% $I.G.R = ROA \times b / (1 - ROA) \times b$ (Correct)

c. 16.29%

d. 18.92%

- 4) 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 % $ROE \times b$ (Correct)

Sustainable Growth rate = $\frac{ROE \times b}{(1 - ROE) \times b}$

a. 35 %
b. 29%
c. 45%

5) 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 (Correct)
 - d. Rs.281.415 millions
-

1. ROE in DuPont identity is affected by:

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

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

- e. Return on assets ratio
 - f. Retention ratio (Correct)
 - g. Leverage ratio
 - h. Profit margin
-

2. 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 (Correct)
-

3. Present value factor is:

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

4. Depreciation expense is:

- a. Operating expense (Correct)
 - b. Investing expense
 - c. Financing expense
 - d. All of the given options
-

5. Internal growth rate tell how rapidly:

- a. The firm grows (Correct)
 - b. Sales of the firm grows
 - c. Profit of the firm grows
 - d. None of the given options
-

6. 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 (Correct)
-
7. Which one of the present value factor is larger?
- a. PV of 1 factor for 10% (Correct)
 - b. PV of 1 factor for 12%
 - c. Both have the same effect
 - d. It cannot be determined
-
8. If we deposit Rs. 5,000 today 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. 7.27 years (Correct)
 - d. 7.57 years
-
9. The future value of first Rs. 100 in 2 years at 8% discount is:
- a. Rs. 116.64 (Correct)
 - b. Rs. 111.64
 - c. Rs. 164.64
 - d. Rs. 164.61
-
1. Investing activities include:
- a. Purchase of property, plant and equipment
 - b. Cash received from the issuance of stock or equity in the business.
 - c. Purchases of stock or other securities (other than cash equivalents)
 - d. Both a & c (Correct)
-
2. Changes in cash from financing are "cash in" when:
- a. Capital is raised (Correct)
 - 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 (Correct)
 - 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 (Correct)

5. The Cash flow statement records your _____ and expenditure at the end of the 'forecast' period.

- a. Actual cash income (Correct)
- b. Un earned income
- c. Coming year income
- d. Last year's income

Ratios look at the relationships between individual values and relate them to how a company:

- e. Has performed in the past
- f. Might perform in the future
- g. Both a & b (Correct)
- h. None of the given options

6. The current ratio is also known as:

- a. Working capital ratio (Correct)
- b. Leverage ratio
- c. Turnover ratio
- d. None of the given options

7. _____ is concerned with the relationship between the long terms liabilities that a business has and its capital employed.

- a. Gearing (Correct)
- b. Acid test ratio
- c. Working capital management
- d. All of the given options

8. _____ 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 (Correct)
-

9. Balance sheet items expressed as percentage of:

- a. Net sales
 - b. Total revenue
 - c. Total assets (Correct)
 - 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. (Correct)
 - 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). (Correct)
-

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% (Correct)
 - b. 34%
 - 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 (Correct)
- 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](#) (Correct)
-

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

- a. [accounts receivable](#) (Correct)
 - 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.](#) (Correct)
 - 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](#) (Correct)
 - 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](#) (Correct)
 - d. Social responsibility
-

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

- a. [Depreciation](#) (Correct)
 - 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 (Correct)

- 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 (Correct)
- 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 (Correct)

4. Interest Coverage Ratios are also known as:

- a. Times Interest Earned (TIE) Ratios (Correct)
- 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)
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6. Benchmarking is used to establish a standard to follow for:

- a. Comparison (Correct)
- 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 (Correct)

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% (Correct)

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 (Correct)

b. \$9000

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

Suppose you can earn a 7.2 percent interest rate per year. According to the rule of 72, it will take approximately _____ years to double your money.

5.00

7.20

10.00 $72/7.2 = 10$ (Correct)

100.0

Rahim Corporation has a cash coverage ratio of 7 times. It's earning before interest and tax is Rs.900 million. It has total assets of Rs.3 billion. The company has a policy of charging 5 % annual depreciation. By using the above information, what would be the interest expense for the year?

90 million

120 million

140 million

150 million $3 \text{ B} * 0.05 = 150000000$ è (Correct)

$(150000000 + 900000000) / 7 = 150$ million

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

Lets Tulips Corporation has return on assets for the year is 14 % .The Corporation has a policy to retain 40 percent of their income. Then the Corporations internal growth rate would be

_____.

5.246 %

5.754 %

5.932 %

6.589 %

If the interest rate is 24 % compounded quarterly, what would be the 5-year discount factor?

3.10585

3.20714 (Correct)

3.50152

3.80153

The bonds are classified as _____ if the maturity of the bond is less than 10 years when issued.

Term finance certificate

Debentures

Notes page 79 (Correct)

None of the given options

_____ is a kind of bond that allows the holder to force the issuer to buy the bond back at a stated price.

Convertible bond

Floating rate bond.

Put bond page 86 (Correct)

None of the given option

Financial institutions facilitate individuals and firms in:

? Borrowing

? Lending

? Pooling of risks

? All of the given options (Correct)

----- are issued by state and local governments.

? Treasury bonds

? Municipal bonds

? Corporate bonds

? Personal bonds

You are expecting to receive Rs.5000 in 3 years. If the interest rate increases, the

present value of that future amount to you would:

? Fall (Correct)

? Rise

? remain unchanged

? cannot be determined without more information

_____ is not the function of the treasurer:

? Preparation of financial statements

? Investor relationships

? Cash management

? Obtaining finances doubt

Sara is interested in purchasing Tom's factory. Since Sara is a poor negotiator, she hires Maria to negotiate a purchase price. Identify the parties to this transaction from the given options, according to agency theory:

? Sara is the agent.

? Maria is the principal.

? Tom is the agent and Maria is the principal

? Sara is the principal and Maria is the agent (Correct)

is not an advantage of separation of ownership and management of corporations.

? Corporations can exist forever.

? Facilitate transfer of ownership without affecting the operations of the firm

? Hire professional managers

? Incur agency costs (Correct)

A firm is having difficulty in controlling its operating expenses. Which ratio category in given options will most directly reflect this problem?

? Liquidity

? Profitability (Correct)

? Market value

? Turnover

A firm's investment decision is also called the:

? financing decision

? capital budgeting decision page 05 (Correct)

? liquidity decision

? debt financing

Suppose a Corporation has a taxable income of Rs.50000 and the tax amount

calculated is as given below:

$$\text{Rs.}30000 \times 5\% = \text{Rs.}1500$$

$$(\text{Rs.}40000 - 30000) \times 10\% = 1000$$

$$(\text{Rs.}50000 - 40000) \times 15\% = 1500$$

Rs.4000

Total tax amount is Rs.4000. Average tax rate is $\text{Rs.}4000 / 50000 = 8.0\%$.

Marginal tax

rate will be:

? 39%

? 34%

? 15% (Correct)

? 25%

In context of inflation and returns, the relationship between real and nominal returns is described by:

? Fisher Effect (Correct)

? Ricardo Effect

? Robbins Effect

? Fredrick Effect

The Ratios showing the ability of a firm to pay its bills in short-run are called:

? Leverage Ratios

? Liquidity Ratios (Correct)

? Profitability Ratios

? Market Value Ratios

Evaluating the size, timing and risk of future cash flows is the essence of :

? Capital Budgeting page 04 (Correct)

? Capital Structure

? Inventory Control

? None of the given options

Sumi Corporation is dealing in furniture industry. It has an equity multiplier of 1.78

times. The debt to equity ratio would be:

? 0.38 times

? 0.58 times

? 0.78 times page 38 (Correct)

? 0.98 times

_____ involves the sale of used securities from one investor to another.

? Primary Market

? Secondary Market (Correct)

? Tertiary Market

? None of the given options

SNT Corporation paid Rs. 28,900 as tax in 2006. If the tax rate was 34%, what was the taxable income of the corporation during 2006?

? Rs. 90,000

? Rs. 85,000 $28900/0.34 = 85000$ (Correct)

? Rs. 65,000

? Rs. 77,000

_____ pays no coupon at all and is offered at a price that is much lower than its stated value.

? Government Bond

? Floating Rate Bond

? Zero Growth Bond if we say it zero coupon bond page 85 (Correct)

? None of the given options

Which of the following statement provides a financial summary of the firm's operating results during a specified period.

? Balance Sheet

? Income Statement (Correct)

? Cash Flow Statement

? Retained Earning Statement

Depreciation expense does not reflect a cash outflow but still shown as an expense on the income statement to serve as a:

? Cash inflow

? Cash outflow

? Tax Shield page 22 (Correct)

? Interest Shield

Investors demand extra yield on a taxable bond as a compensation for the unfavorable tax treatment, known as:

? Taxability premium page 90 (Correct)

? Inflation premium

? Interest Rate Risk Premium

? None of the given options

If you invest Rs. 150 in a bank on an interest rate of 14%. How much will you have in your account after 5 years ?

? Rs. 78

? Rs.163

? Rs. 207

? Rs. 289 (Correct)

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of periods is called Perpetuity.

? True

? False (Correct)

A dollar in hand today is worth more than a dollar promised at some time in future.

? True (Correct)

? False

Profit Margin is calculated by dividing Net Income over Sales.

? True page 42 (Correct)

? False

While making Common Size Statements, Balance sheet items are shown as a percentage of total liabilities.

? True page 31 (Correct)

? False

Present value of all the cash inflows can be calculated by compounding each cash flow separately.

? True

? False (Correct)

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 (Correct)

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

A. Rs. 29,454 (Correct)

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 (Correct)

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 (Correct)

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

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

A. Rs. 1,556

B. Rs. 1,712 (Correct)

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 (Correct)

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 (Correct)

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 (Correct)

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% (Correct)

The alternative name used for Interest Coverage Ratio is

_____.

1. Time interest earned (Correct)

2. Cash coverage ratio

3. Profit margin ratio

▪ None of the given option

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?

1. Return on short as well as long term investments

2. Return on equity and return on debt

3. Return on equity and profit margin (Correct)

▪ All of the given options

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?

1. Increase

2. Decrease (Correct)

3. Remain unchanged

▪ None of the given option

Mehran Corporation is dealing in furniture industry. It has an equity multiplier of 1.78 times. The debt to equity ratio would be _____?

1. 0.38 times

2. 0.58 times

3. 0.78 times (Correct)

- 0.98 times

1) 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?

1. Rs. 2.5 million
2. Rs. 3 million
3. Rs. 3.5 million

- Rs.4.5 million (Correct)

2) 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 _____.

1. 9.414 %
2. 10.414 %
3. 11.412 %
4. 12.414 %

18/1.45 (Correct)

Suppose, Ilyas Corporation is one of the dominant firms in electronics equipment industry. Its policy is very clear about dealing with stakeholders. 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?

1. Rs.150 millions
2. Rs.250 millions
3. Rs.350 millions $0.3 = 150/N \Rightarrow N.I = 500 \text{ million} \times 0.70 = 350$ (Correct)
- Rs.500 millions

3) 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?

1. 12.29%
2. 14.29%
3. 16.29%
- 18.92%

I.G.R = $ROA \times b / (1 - ROA) \times b$ (Correct)

4) 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 % ROE x b (Correct)

Sustainable Growth rate = -----

$(1 - \text{ROE}) \times b$

1. 35 %
2. 29%
- 45%

5) 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 (Correct)
- d. Rs.281.415 millions

1. ROE in DuPont identity is affected by:

1. Operating efficiency
2. Asset usage efficiency
3. Financial leverage

- All of the given options (Correct)

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

207273200. Return on assets ratio

207273248. Retention ratio (Correct)

207273296. Leverage ratio

- Profit margin

207544800. Which of the following does not change Current ratio of a business:

1. Efficient usage of current assets
2. Change in the nature of the firm
3. Change in Accounting method of the firm

- Change in the management of the firm (Correct)

207270752. Present value factor is:

1. $(1+r)^t$
2. $(1-r)^t$
3. $1/(1+r)^t$ (Correct)
- $1/(1+r)^{1/t}$

188987312. Depreciation expense is:

1. Operating expense (Correct)
2. Investing expense
3. Financing expense
- All of the given options

207270416. Internal growth rate tell how rapidly:

1. The firm grows (Correct)
2. Sales of the firm grows
3. Profit of the firm grows
- None of the given options

190379376. You can determine the number of periods (n) in a present value calculation, if you know:

1. Future amount
2. Present value
3. Interest rate
- All of the given options (Correct)

190380432. Which one of the present value factor is larger?

1. PV of 1 factor for 10% (Correct)
2. PV of 1 factor for 12%
3. Both have the same effect
- It cannot be determined

190201744. If we deposit Rs. 5,000 today in an account paying 10%, how long does it take to grow to Rs. 10,000?

1. 5.27 years

2. 6.27 years
3. 7.2 7 years (Correct)
- 7.57 years

207270560. The future value of first Rs. 100 in 2 years at 8% discount is:

1. Rs. 116.64 (Correct)
2. Rs. 111.64
3. Rs. 164.64
- Rs. 164.61

1. Investing activities include:

1. Purchase of property, plant and equipment
2. Cash received from the issuance of stock or equity in the business.
3. Purchases of stock or other securities (other than cash equivalents)
- Both a & c (Correct)

1. Changes in cash from financing are "cash in" when:

1. Capital is raised (Correct)
2. Assets increased
3. Liabilities decreased
- Cash withdrawn

190379520. Generally, changes made in cash, accounts receivable, depreciation, inventory and accounts payable are reflected in:

1. Cash from operations activities (Correct)
2. Cash from financing activities
3. Cash from investing activities
4. None of the given options

190379328. _____are short-term, temporary investments that can be readily converted into cash.

1. marketable securities
2. Cash equivalents
3. Treasury bills

- All of the given options (Correct)

190379136. The Cash flow statement records your _____ and expenditure at the end of the 'forecast' period.

1. **Actual** cash income (Correct)
2. Un earned income
3. Coming year income
4. Last year's income

Ratios look at the relationships between individual values and relate them to how a company:

190378560. Has performed in the past

190378320. Might perform in the future

190378272. Both a & b (Correct)

- None of the given options

190378128. The current ratio is also known as:

1. **Working capital ratio** (Correct)
 2. **Leverage ratio**
 3. **Turnover ratio**
- **None of the given options**

77509856. _____ is concerned with the relationship between the long terms liabilities that a business has and its capital employed.

1. Gearing (Correct)
 2. Acid test ratio
 3. Working capital management
- All of the given options

77510336. _____ give a picture of a company's ability to generate cash flow and pay it financial obligations:

1. Management ratios

2. Working capital ratios
3. Net profit margin ratios

- Solvency Ratios (Correct)

77510480. Balance sheet items expressed as percentage of:

1. Net sales
2. Total revenue
3. Total assets (Correct)

- 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:

1. Ann is the principal and Mary is the agent. (Correct)
2. Mary is the principal and Ann is the agent.
3. Ted is the agent and Ann is the principal.
4. 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.

1. All of the given options (a, b and c). (Correct)

1. 34%
2. 15%
3. 25%
4. Charter (Correct)
5. Set of bylaws
6. Regulations paper
7. None of the given options

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

$$\begin{array}{lll} \$ 50,000 & \times 15\% & = \$ 7,500 \\ (\$ 75,000 - 50,000) & \times 25\% & = 6,250 \end{array}$$

$(\$ 100,000 - 75,000)$	$\times 34\%$	$=$	8,500
$(\$ 200,000 - 100,000)$	$\times 39\%$	$=$	<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% (Correct)

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:

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?

1. Cash outflow to the government for taxes.
2. Cash outflow to shareholders as dividends.
3. Cash outflow to lenders as interest.
4. Cash outflow to purchase bonds issued by another company (Correct)

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

a. accounts receivable (Correct)

b.inventory

1. 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?

1. Limited liability.
2. Easy transfer of ownership position. (Correct)
3. Double taxation.
4. 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.

1. money
 2. capital (Correct)
 3. primary
 4. secondary
9. _____ is concerned with the branch of economics relating the behavior of principals and their agents.

1. Financial management
2. Profit maximization
3. Agency theory (Correct)
4. Social responsibility

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

1. Depreciation (Correct)
2. Dividends
3. Interest payments
4. Taxes

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

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 2. Debt Ratios
 3. Asset Management Ratios
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 5. identification
 6. calculation
 7. liability

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- 9. annuity due
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