vulmshelp.com
Largest Online Community of VU Students

FINALTERM EXAMINATION
FALL 2006
ACC501 - BUSINESS FINANCE (Session - 1)

Marks: 60
Time: 120min

StudentID/LoginID:	
Student Name:	
Center Name/Code:	
Exam Date:	Saturday, February 03, 2007

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of **15** Multiple Choice Questions (MCQ's), **5** True/False Questions, **5** Fill in the Blanks,**5** Short Questions and **2** Numerical Questions.
- Question No.1-15 are MCQs carrying **1** Mark each, Question No.16-20 are True/False Questions carrying **1** Mark each, Question No.21-25 are fill in the blanks carrying **1** Mark each, Question No.26-30 are short questions carrying **3** Marks each and Question No.31-32 are numerical questions carrying **10** Marks each.
- For each MCQ, read the choices available carefully and select the choice which you consider is the most suitable, by clicking on the appropriate check box.
- You are required to show all the working of short questions as well as Numerical questions.
- This examination is closed book, closed notes and closed neighbour.
- Do not ask questions about the contents of this examination from anyone.
- The use of calculator and financial tables is allowed.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official time-keeper of the test.
- Failure to comply with the supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

For Teacher's use only											
Question	1	2	3	4	5	6	7	8	9	10	Total
Marks											
Question	11	12	13	14	15	16	17	18	19	20	
Marks											
Question	21	22	23	24	25	26	27	28	29	30	
Marks											
Question	31	32									
Marks											

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

A series of constant, or level, cash flows that occur at the end of each period for some fixed number of periods is called a/an:

	▶	Present Value
	▶	Future Value
	▶	Ordinary Annuity
	▶	Ordinary Share

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

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

	▶	Leverage Ratios
	▶	Liquidity Ratios
	▶	Profitability Ratios
	▶	Market Value Ratios

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

GAAP stands for:

	▶	Generally Accepted Accounting Principles
	▶	Generally All-rounder Accounting Principles
	▶	General Accepting Accounts Principles
	▶	None of the given options

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

A contract between the bond issuer and bond holder is called:

	▶	Bond Indenture
	▶	Bond Debenture
	▶	Bond Value
	▶	None of the given options

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

Suppose you have a portfolio comprised of two securities X and Y. In the portfolio, 60 shares are of stock X valued at Rs.10 per share and 40 shares are of stock Y valued at Rs.3 per share. What is the approximate weight of stock X in the portfolio?

	▶	23 %
	▶	40 %
	▶	60 %
	▶	83 %

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

In which market, previously issued securities are traded among investors?

	▶	Primary Market
	▶	Secondary Market
	▶	Tertiary Market
	▶	None of the given options

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

Which of the following is the present value of a series of future net cash flows that will result from an investment, minus the amount of the original investment?

	▶	Present Value
	▶	Future Value
	▶	Net Present Value
	▶	Terminal Value

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

You earn a 5 percent real return. If the inflation rate is 4 percent, what is your nominal return?

	▶	8.96 %
	▶	9.05 %
	▶	9.20 %
	▶	9.92 %

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

Fee paid to the consultant for evaluating the option of launching a new product will be considered as:

	▶	Sunk Cost
	▶	Opportunity Cost
	▶	Financing Cost
	▶	Operating Cost

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

A risk that affects a single or at most a small number of assets is called:

	▶	Unsystematic Risk
	▶	Unique Risk
	▶	Diversifiable Risk
	▶	All of the given options

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

What will be the payback period of a Rs.70,000 investment with the following cash inflows?

Years	Cash flows
1	Rs. 15,000
2	Rs. 20,000
3	Rs. 25,000
4	Rs. 15,000
5	Rs. 5,000

	▶	3.57 years
	▶	3.67 years
	▶	4.57 years
	▶	4.67 years

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

Which of the following is the required return on a firm's debt by its creditors?

	▶	Cost of Equity
	▶	Cost of Debt
	▶	Cost of Preferred Stock
	▶	Cost of Capital

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

Which one of the followings is the overall required return the firm must earn on its existing assets to maintain the value of the stock?

	▶	AAR (Average Accounting Return)
	▶	IRR (Internal Rate of Return)
	▶	MIRR (Modified Internal Rate of Return)
	▶	WACC (Weighted Average Cost of Capital)

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

The costs to store and finance the assets are known as:

	▶	Carrying Costs
	▶	Shortage Costs
	▶	Manufacturing Costs
	▶	None of the given options

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

The minimum level of inventory that a firm keeps on hand is called:

	▶	Common stock
	▶	Safety Stock
	▶	Preferred Stock
	▶	Dangerous Stock

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

Realization Principle is one of the basic principles of GAAP.

	▶	True
	▶	False

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

Whenever the word Dividend is used, it always refers to a long-term loan.

	▶	True
	▶	False

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

A preferred dividend is exactly like interest on bond.

	▶	True
	▶	False

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

By IRR rule, take a project when its IRR exceeds the required return.

	▶	True
	▶	False

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

Diversification is the group of assets such as stocks and bonds held by investor.

	▶	True
	▶	False

Question No: 21 (Marks: 1)

_____ is a special case of Annuity, where the stream of cash flows continues forever.

Question No: 22 (Marks: 1)

_____ is the value of a present amount at a certain date in the future based on a determined rate of return.

Question No: 23 (Marks: 1)

The amount of time required for an investment to generate cash flows sufficient to recover its initial cost is called its _____.

Question No: 24 (Marks: 1)

_____ refers to the extent to which a firm relies on its debt.

Question No: 25 (Marks: 1)

The difference between the return on a risky investment and that on a risk free investment is called _____.

Question No: 26 (Marks: 3)

What is the difference between Flexible Policy and Restrictive Policy regarding size of investment in current assets while making short-term financial policy?

Question No: 27 (Marks: 3)

Differentiate between Systematic Risk and Unsystematic Risk. Which of them can be eliminated by diversification?

Question No: 28 (Marks: 3)

Suppose common stocks of a company are currently selling for Rs.30 per share. Stock market analysts estimated a dividend of Rs.2 per share for the next year and it is expected that the dividend

will grow by 10% more or less indefinitely. What return does this stock offer?

Question No: 29 (Marks: 3)

A bank is offering 12% interest rate compounded quarterly on its saving account. What would be the Effective Annual Rate (EAR) ?

Question No: 30 (Marks: 3)

“An investment is acceptable if the IRR exceeds the required return. It should be rejected otherwise.” Explain.

Question No: 31 (Marks: 10)

Sumi Inc. has outstanding Rs.1, 000- face –value bond with a 16 percent coupon rate and 6 years remaining until final maturity. Interest payments are made quarterly. What would be the value of this bond if your nominal annual required rate of return is : (i) 13 %, (ii) 19 %.

Question No: 32 (Marks: 10)

S&T Company just paid a dividend of Rs.2 per share and has a share price of Rs.30. The dividends are expected to grow @ 10% forever. S&T Company has Rs.75 million in equity and Rs.75 million in debt in its total capital. The tax rate for the firm is 35% and the Cost of debt is 8%. What will be the Weighted Average Cost of Capital (WACC) for S&T Company ?