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FINALTERM EXAMINATION
Fall 2008
ACC501- Business Finance (Session - 1)

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

Which of the following refers to a conflict of interest between principal and agent?

- ▶ Management Conflict
- ▶ Interest Conflict
- ▶ Agency Problem
- ▶ None of the given options

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

Which of the following term refers to the ease and quickness with which assets can be converted to cash?

- ▶ Analysis
- ▶ Structuring
- ▶ Budgeting
- ▶ Liquidity

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

Product costs do NOT include which of the following?

- ▶ Raw material
- ▶ Direct labor
- ▶ Manufacturing overhead
- ▶ Administrative expenses

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

Which of the following can be com puted by using the inform ation only from balance sheet?

- ▶ Equity multiplier
- ▶ Inventory turnover
- ▶ Receivable turnover
- ▶ Return on equity

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

Which of the following is CORRECT regarding the present value discount factor?

- ▶ It is always greater than 1.0
- ▶ It decreases as the discount rate increases
- ▶ It is equal to zero when discount rate is zero
- ▶ It increases as the time period increases

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

H ow m uch m ust be deposited at 8% each of the next 20 years to have Rs. 10,296.44?

- ▶ Rs. 225
- ▶ Rs. 341
- ▶ Rs. 410
- ▶ Rs. 452

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

In order to com pare different investm ent opportunities (each with the sam e risk) with interest rates reported in different manners you should:

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▶ Convert each interest rate to an effective annual rate

▶ Convert each interest rate to a monthly nominal rate

▶ Convert each interest rate to an annual nominal rate

▶ Compare the published annual rates

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

You have Rs. 1,0 0 0 to invest. You have 2 choices; first is the savings account A, which earns 8.75 percent com pounded annually and second is the savings account B, which earns 8.50 percent com pounded m onthly. Which account should you choose and why?

▶ Account A; because it has a higher effective annual rate

▶ Account B; because it has a higher effective annual rate

▶ Account A; because it has the higher quoted rate

▶ Account B; because the quoted rate is higher

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

What will be the value of a Rs. 1,0 0 0 face-value bond with an 8% coupon rate at 8% required rate of return?

▶ More than its face value

▶ Less than its face value

▶ Equal to its face value

▶ Cannot be determined without more information

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

Which of the following statement is FALSE regarding debt?

▶ Debt is not an ownership interest in the firm.

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▶ Unpaid debt can result in bankruptcy or financial failure.

▶ Debt provides the voting rights to the bondholders.

▶ Corporation s ḃaym ent of interest on debt is fully tax deductible.

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

The relationship between real and nominal returns is described by the:

▶ M&M Proposition

▶ Capital Asset Pricing Model

▶ Fisher s, Effect

▶ BCG Matrix

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

Investors dem and a higher yield as com pensation to the risk of possible default.
This extra premium is called:

▶ Default risk premium

▶ Taxability premium

▶ Interest rate risk premium

▶ Inflation risk premium

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

For which type of stocks, the dividends grow at a constant rate?

▶ Zero Growth Stocks

▶ Constant Growth Stocks

▶ Non-Constant Growth Stocks

▶ None of the given options

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

In which type of voting, each shareholder is entitled one vote per share times the number of directors to be elected?

- ▶ Straight Voting
- ▶ Statutory Voting
- ▶ Cumulative Voting
- ▶ None of the given options

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

In which of the following procedure of voting for a company's directors, each shareholder is entitled to one vote per share ?

- ▶ Straight Voting
- ▶ Proportional Voting
- ▶ Cumulative Voting
- ▶ None of the given options

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

Which of the following is the price that the dealer wishes to pay for a share ?

- ▶ Simple Price
- ▶ Bid Price
- ▶ Strike Price
- ▶ Complex Price

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

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:

- ▶ 2.6 Years
- ▶ 3.1 Years
- ▶ 3.6 Years
- ▶ 4.1 Years

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

The XYZ Corporation is considering an investment that will cost Rs. 80,000 and have a useful life of 4 years. During the first 2 years, the net incremental after-tax cash flows are Rs. 25,000 per year and for the last two years they are Rs. 20,000 per year. What is the payback period for this investment ?

- ▶ 3.2 Years
- ▶ 3.5 Years
- ▶ 4.0 Years
- ▶ Cannot be determined from the given information

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

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

- ▶ Net Present Value (NPV)
- ▶ Average Accounting Return (AAR)
- ▶ Internal Rate of Return (IRR)
- ▶ Profitability Index (PI)

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

Which of the following set of cash flows should be considered in the decision at hand?

- ▶ Relevant Cash Flows
- ▶ Incremental Cash Flows
- ▶ Negative Cash Flows
- ▶ All of the given options

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

_____ Cost is an outlay that has already occurred and hence is not affected by the decision under consideration.

- ▶ Sunk
- ▶ Opportunity
- ▶ Fixed
- ▶ Variable

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

The overall (weighted average) cost of capital is composed of a weighted average of :

- ▶ The cost of common equity and the cost of debt
- ▶ The cost of common equity and the cost of preferred stock
- ▶ The cost of preferred stock and the cost of debt
- ▶ The cost of common equity, the cost of preferred stock, and the cost of debt

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

Over the past four years, a company has paid dividends of Rs. 1.00, Rs. 1.10, Rs. 1.20 and Rs. 1.30 respectively. This pattern is expected to continue into the future. This is an example of a company pay a dividend that grows:

- ▶ By 10 percent each year
- ▶ At a constant rate
- ▶ By a decreasing amount
- ▶ At a decreasing rate

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

Which of the following statement is INCORRECT regarding Average Accounting Return?

- ▶ AAR is a rate that makes the NPV equal to zero
- ▶ AAR is a measure of accounting profit relative to book value
- ▶ An investment is acceptable if its AAR is greater than a benchmark AAR
- ▶ None of the given options

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

Which of the following M&M propositions states that it is completely irrelevant how a firm chooses to arrange its finances ?

- ▶ 1st proposition
- ▶ 2nd proposition
- ▶ 3rd proposition
- ▶ None of the given options

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

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SNT Corporation has a WACC of 16% (ignoring taxes). It can borrow at 9% . Assuming that SNT has a target capital structure of 75% equity and 25% debt, what will be its cost of equity ?

- ▶ 13.00%
- ▶ 15.23%
- ▶ 18.33%
- ▶ 20.98%

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

Which of the following activities decreases cash ?

- ▶ Increasing current liabilities
- ▶ Decreasing long term debt
- ▶ Decreasing fixed assets
- ▶ Increasing equity

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

Which of the following describes how a product moves through the current asset accounts ?

- ▶ Cash Cycle
- ▶ Operating Cycle
- ▶ Current Cycle
- ▶ None of the given options

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

Which of the following is the time between sale of inventory and collection of receivables ?

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▶ Inventory period

▶ Accounts receivable period

▶ Collection period

▶ Accounts payable period

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

Suppose you have Rs. 10,000 on deposit. One day, you write a cheque for Rs. 2,000 and deposit Rs. 4,000. What is your disbursement float ?

▶ - Rs. 4,000

▶ + Rs. 2,000

▶ - Rs. 2,000

▶ + Rs. 4,000

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

Suppose you have Rs. 70 in stock A and Rs. 120 in another stock B in your portfolio. Stock A has an expected return of 25% and stock B has an expected return of 20%. What will be the portfolio expected return ?

▶ 18.27%

▶ 21.84%

▶ 22.50%

▶ 25.13%

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

Which of the following statement(s) is (are) true regarding Return on Investment?

► One of the responsibilities of the financial manager is to assess the value of the proposed investment

► The return consists of income earned and capital gain

► The dollar returns are the sum of the cash received and the change in dollar value of the asset

► All of the given options

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

The MC Inc. purchased a share of common stock exactly one year ago for Rs. 45. During the past year the common stock paid an annual dividend of Rs. 2.40. The firm sold the stock today for Rs. 80. What is the rate of return the firm has earned?

► 5.3%

► 194.2%

► 83.11%

► 94.2%

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

What w ill be the cash inflow if w e have sales of Rs. 400,000 and accou nts receivable are increased by Rs. 70,000?

► Rs. 70,000

► Rs. 230,000

► Rs. 330,000

► Rs. 470,000

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

What will be the cash inflow if we have sales of Rs. 300,000 and accounts receivable are decreased by Rs. 70,000?

- ▶ Rs. 70,000
- ▶ Rs. 230,000
- ▶ Rs. 370,000
- ▶ Rs. 470,000

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

Su p pose a firm borrow s Rs. 800,000 at 7%. What w ill be the total interest bill p er year if tax rate is 34% ?

- ▶ Rs. 19,040
- ▶ Rs. 36,960
- ▶ Rs. 56,000
- ▶ Rs. 800,000

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

Which one of the following motives refers to the need for holding cash as a safety margin to act as a financial reserve?

- ▶ Speculative motive
- ▶ Transaction motive
- ▶ Precautionary motive
- ▶ Personal motive

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

Su p pose m arket valu e exceed s book valu e by Rs. 225,000. What w ill be the after-tax proceeds if there is a tax rate of 34 percent?

▶ Rs. 105,600

▶ Rs. 148,500

▶ Rs. 191,000

▶ Rs. 225,000

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

Su p pose you have bou ght 100 shares of a corporation one year ago at Rs. 18 per share. Over the last year, you have received a d ivid end of Rs. 2 p er share. At the end of the year, the stock sells for Rs. 27. As p er given inform ation, w hat w ill be the capital gains yield?

▶ 15%

▶ 25%

▶ 35%

▶ 50%

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

SN T Com pany p u rchased a vehicle for Rs. 450,000. Based on historical averages, this vehicle is w orth 25% of the p u rchase price now and it is being sold at this p rice. What is the vehicle s ṁ arket valu e ?

▶ Rs. 14,875

▶ Rs. 112,500

▶ Rs. 337,500

▶ Rs. 230,000

Question No: 41 (Marks: 1) - Please choose one

Stand ard d eviations for Investm ent A and Investm ent B are 19% and 28% respectively. This indicates that:

- ▶ Investment A is more volatile than Investment B
- ▶ Investment A is equally volatile to Investment B
- ▶ Investment B is less volatile than Investment A
- ▶ Investment B is more volatile than Investment A

Question No: 42 (Marks: 1) - Please choose one

Which of the following statement is INCORRECT regarding financial leverage ?

- ▶ Financial leverage can dramatically alter the payoffs to the shareholders.
- ▶ Financial leverage refers to the extent to which a firm relies on the debt.
- ▶ Financial leverage must affect the overall cost of capital in any condition.
- ▶ Financial leverage may not affect the overall cost of capital.

Question No: 43 (Marks: 3)

What is the difference between dealer and broker ?

Question No: 44 (Marks: 3)

What does Static Theory of Capital Structure state?

Question No: 45 (Marks: 3)

Suppose there is an expected rate of 20%. What will be the risk premium if risk free rate is (i) 8% and (ii) 12% ?

Question No: 46 (Marks: 5)

What is the difference between Leverage and Un-levering?

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Question No: 47 (Marks: 5)

Match the capital budgeting techniques are given in Column A to the criteria in Column B. Provide the correct answer in Column C.

Column A	Column B	Column C
Net Present Value	Discounted Cash Flow Criteria	
Average Accounting Return	Payback Criteria	
Payback Period	Discounted Cash Flow Criteria	
Internal Rate of Return	Accounting Criteria	
Profitability Index	Discounted Cash Flow Criteria	

Question No: 48 (Marks: 10)

Each of the following mutually exclusive investment projects involves an initial ou tlay of Rs. 240,000. The com p any s ́equ ired rate of retu rn is 11 percent. The estimated net cash flows for the projects are as follows:

Calculate the NPV and PI for both projects. If both projects are mutually exclusive then which project should be chosen and why?

Question No: 49 (Marks: 10)

Consider the following chronological events:

	Activity	Cash Effect
0	Acquire inventory on credit	None
35	Pay for inventory	Rs. 5,000
70	Sell inventory on credit	None
110	Collect on sale	+ Rs. 6,000

From the given information, find out:

(i) inventory period

(ii) Accounts receivable period

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(iii) Accounts payable period
(iv) Operating cycle
(v) Cash cycle