

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

Marks: 81

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

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Which of the following is the difference between current assets and current liabilities?

- ▶ Surplus Asset
- ▶ Short-term Ratio
- ▶ Working Capital
- ▶ Current Ratio

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

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A business owned by a single person is known as:

- ▶ Sole-proprietorship
- ▶ General partnership
- ▶ Limited partnership
- ▶ Corporation

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

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In a common-size balance sheet, all items are shown as a percentage of:

- ▶ Total Assets
- ▶ Total Liabilities
- ▶ Total Owner s' Equity
- ▶ None of the given options

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

A company's ability to meet long-term obligations can be estimated by using which of the following set of ratios?

- ▶ Liquidity Ratio
- ▶ Solvency Ratios
- ▶ Asset Management Ratios
- ▶ Market Value Ratios

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

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According to Du Pont Identity, ROE is affected by which of the following?

- ▶ Operating efficiency
- ▶ Asset use efficiency
- ▶ Financial Leverage
- ▶ All of the given options

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

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Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?

- ▶ Ordinary annuity
- ▶ Annuity due
- ▶ Perpetuity
- ▶ None of the given options

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

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A portion of profits, which a company distributes among its shareholders, is known as:

- ▶ Dividends
- ▶ Retained Earnings
- ▶ Capital Gain
- ▶ Interest

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

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What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 3,000?

- ▶ Rs. 360
- ▶ Rs. 2,000
- ▶ Rs. 3,000
- ▶ Rs. 3,360

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

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A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 45 are paid every 6 months?

- ▶ 3 percent
- ▶ 6 percent
- ▶ 9 percent
- ▶ 12 percent

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

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Given two bonds identical but for maturity, the price of the longer-term bond will change \_\_\_\_\_ that of the shorter-term bond, for a given change in market interest rates.

- ▶ More than
- ▶ Less than

- ▶ Equal to
- ▶ None of the given options

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

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When corporations borrow, they generally promise to:

- I. Make regular scheduled interest payments
- II. Give the right of voting to bondholders
- III. Repay the original amount borrowed (principal)
- IV. Give an ownership interest in the firm

- ▶ I and II
- ▶ I and III
- ▶ II and IV
- ▶ I, III, and IV

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

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Which of the following allows a company to repurchase part or all of the bond issue at a stated price?

- ▶ Repayment
- ▶ Seniority
- ▶ Call provision
- ▶ Protective covenants

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

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Sumi Inc. has policy of paying a Rs. 9 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 12% required rate of return?

- ▶ Rs. 30

- ▶ Rs. 45
- ▶ Rs. 60
- ▶ Rs. 75

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

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

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

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

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An investment should be accepted if the net present value is \_\_\_\_\_ and rejected if it is \_\_\_\_\_.

- ▶ Positive; positive
- ▶ Positive; negative
- ▶ Negative; negative
- ▶ Negative; positive

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

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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: 17 ( Marks: 1 ) - Please choose one**

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Which of the following statement is INCORRECT regarding a normal project ?

- ▶ If the IRR of a project is greater than the discount rate,  $k$ , then its PI will be greater than 1
- ▶ If the NPV of a project is greater than 0, then its PI will exceed 1
- ▶ If the IRR of a project is 8%, its NPV, using a discount rate,  $k$ , greater than 8%, will be less than 0
- ▶ If the PI of a project equals 0, then the project's initial cash outflow equals the PV of its cash flows

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

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Which of the following set of cash flows represent the change in the firm's total cash flow that occurs as direct result of accepting the project ?

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

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

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Which of the following is NOT a problem while determining incremental cash flows ?

- ▶ Merchandize cost

- ▶ Sunk cost
- ▶ Opportunity cost
- ▶ None of the given options

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

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\_\_\_\_\_ Cost refers to the cash flows that could be generated from an asset the firm already owns provided it is not used for the project in question.

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

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

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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: 22 ( Marks: 1 ) - Please choose one**

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Which of the following is a characteristic of preferred stock?

- ▶ These stocks have not stated liquidating value
- ▶ Dividends on these stocks can be cumulative
- ▶ These stocks hold credit ratings quite different from bonds

- ▶ These stocks have not any kind of priority over common stocks

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

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

- ▶ Sunk cost
- ▶ Opportunity cost
- ▶ Both sunk cost and opportunity cost
- ▶ Neither sunk cost nor opportunity cost

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

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One would be indifferent between taking and not taking the investment when:

- ▶ NPV is greater than Zero
- ▶ NPV is equal to Zero
- ▶ NPV is less than Zero
- ▶ All of the given options

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

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Which of the following is a measure of accounting profit relative to book value?

- ▶ Net Present Value
- ▶ Profitability Index
- ▶ Internal Rate of Return
- ▶ Average Accounting Return



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

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

- ▶ 1<sup>st</sup> proposition
- ▶ 2<sup>nd</sup> proposition
- ▶ 3<sup>rd</sup> proposition
- ▶ None of the given options

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

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According to 2<sup>nd</sup> M&M proposition, cost of equity does NOT depend upon which of the following ?

- ▶ The required return of firm's assets
- ▶ The firm's cost of debt
- ▶ The firm's stockholders
- ▶ The firm's debt-equity ratio

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

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Which of the following risk is associated with the unique circumstances of a particular company ?

- ▶ Financial Risk
- ▶ Business Risk
- ▶ Functional Risk
- ▶ None of the given options

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

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Which of the following type of risk influences a large number of assets ?

- ▶ Systematic Risk
- ▶ Unsystematic Risk
- ▶ Diversifiable Risk
- ▶ Asset-specific risk

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

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Which of the following is an example of unsystematic risk ?

- ▶ Increasing Recession
- ▶ Rise in Interest Rate
- ▶ Rise in Inflation
- ▶ Strike call in a company

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

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

- ▶ Probability distribution
- ▶ The expected return
- ▶ The standard deviation
- ▶ Coefficient of variation

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

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Mr. Sami has bought 50 shares of a corporation one year ago at Rs. 20 per share. Over the last year, you received a dividend of Rs. 2 per share. At the end of the year, the stock sells for Rs. 25. If Mr. Sami sells the stock at the end of the year, what will be his total cash inflow ?

- ▶ Rs. 100
- ▶ Rs. 250
- ▶ Rs. 1,000
- ▶ Rs. 1,350

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

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While performing the feasibility analysis for a project, an operating cash flow of Rs. 250,000 has been calculated. Net working capital has increased by Rs. 50,000. There was no capital spending during the year. What will be the total cash flow for the project?

- ▶ Rs. 170,000
- ▶ Rs. 200,000
- ▶ Rs. 215,000
- ▶ Rs. 230,000

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

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Autos & computers are included in which of the following MACRS property class?

- ▶ 3-year
- ▶ 5-year
- ▶ 7-year
- ▶ None of the given options

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

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The next dividend for a company is Rs. 5 per share. The stock current price is Rs. 50 per share. What will be the cost of capital if the dividends are estimated to grow steadily at 5%?

- ▶ 12.88%
- ▶ 13.07%
- ▶ 14.22%
- ▶ 15.00%

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

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Trade credit is more likely to be granted if:

- ▶ The selling firm has a cost advantage over other lenders
- ▶ The selling firm can engage in price discrimination
- ▶ The selling firm can obtain favorable tax treatment
- ▶ All of the given options

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

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A firm makes a sale of Rs. 2,000 on January 05, 2005. The firm is offering credit term of 3/10 net 30. How much it will receive if the customer makes the payment on January 09, 2005 ?

- ▶ Rs. 1,000
- ▶ Rs. 1,940
- ▶ Rs. 2,000
- ▶ Rs. 2,100

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

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Shortage or Restocking costs \_\_\_\_\_ with inventory levels.

- ▶ Rise
- ▶ Decline
- ▶ Remain unaffected
- ▶ None of the given options

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

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Which one of the following motives refers to the need for holding cash to satisfy normal disbursement and collection activities associated with a firm's ongoing operations?

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

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

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What would be the standard deviation of returns for an investment that has a variance of 0.008 ?

- ▶ 0.08944
- ▶ 0.09101
- ▶ 0.09487
- ▶ 0.10521

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

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A firm has 3 million in common stock, 1 million in preferred stock and 2 million in debt. What is the percentage of firm's financing that is debt ?

- ▶ 20%
- ▶ 33%
- ▶ 40%
- ▶ 67%

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

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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 )**

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Define Net Present Value (NPV) and write down the NPV rule to accept a project.

**Question No: 44 ( Marks: 3 )**

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What do you mean by the terms of business risk and financial risk?

**Question No: 45 ( Marks: 3 )**

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Suppose there is an operating cash flow of Rs. 520,000. Net working capital has increased by Rs. 200,000 and there is a net capital spending of Rs. 120,000 during the year. Calculate total cash flow.

**Question No: 46 ( Marks: 5 )**

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A replacement project has an initial investment of Rs.10,000; and cash flows are Rs.3,400; Rs. 2,500; Rs.3,900; and Rs.5,200 for years 1 through 4, respectively. The

firm has decided to assume that the appropriate cost of capital is 10%. What will be the net present value of the project? Is the project feasible?

**Question No: 47 ( Marks: 5 )**

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Describe the relationship between capital structure and weighted average cost of capital (WACC).

**Question No: 48 ( Marks: 10 )**

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The capital budgeting director of MKJ Inc. is supposed to analyze two proposed capital investments projects S and T. Each project has a cost of Rs.100,000, and the cost of capital (discounting rate) for each project is 12%. The projects expected net cash flows are as follows :

	Project S (Rs.)	Project T (Rs.)
1	30,000	30,000
2	30,000	30,000
3	35,000	20,000
4	25,000	30,000
5	25,000	25,000

- (i) Calculate Internal Rate of Return (IRR) for both projects.
- (ii) On the basis of findings in (i):
  - a. Which project should be selected if projects are mutually exclusive?
  - b. Which project or projects should be selected if projects are independent?

**Question No: 49 ( Marks: 10 )**

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Identify the sources and uses of cash and complete the table by following the example.

Sr.	Activity	Increase/Decrease Cash	Source/Use of cash
<b>Example</b>	Increasing current liabilities	Increase	Source
<b>1.</b>	Increasing fixed asset		

2.	Decreasing equity		
3.	Increasing long-term debt		
4.	Decreasing fixed assets		
5.	Increasing current assets other than cash		
6.	Increasing equity		
7.	Decreasing long-term debt		
8.	Decreasing current assets other than cash		
9.	Accounts Payable go up by Rs. 1,500		
10.	Accounts receivable go up by Rs. 2,000		