

THE SOCIETY OF ACCOUNTING EDUCATION

CERTIFIED FINANCIAL ACCOUNTANT MEMBERSHIP PROGRAM

Model Paper for Course: Fundamental of Financial Management

Course Code: CL-04

Level: Certification Level

1. Which of the following is likely to be correct for a company which invests in projects with Positive NPV?
 - a) Company's EVA (Economic Value Added) rises by the same value
 - b) Company's MVA (Market Value Added) or market value rises
 - c) Company Shareholders' Wealth rises
 - d) **All of the given options**

2. If the marginal reduction in order costs exceeds the marginal carrying cost of inventory, then what should be done by the firm?
 - a) The firm has minimized its total carrying costs
 - b) **The firm should increase its order size**
 - c) The firm should decrease its order size
 - d) The firm has maximized its order costs

3. Which of the following is as EBIT?
 - a) Funds provided by operations
 - b) Earnings before taxes
 - c) Net income
 - d) **Operating profit**

4. Security market line gives the relationship between _____ and _____.
 - a) Market risk and the required return
 - b) Systematic risk and the required return
 - c) Non-diversified risk and the required return
 - d) **A&B**

5. All of the following are the reasons for Uncertain NPV calculations EXCEPT:
 - a) **Estimated discount rate does not change with the markets**
 - b) Estimated Life of project is doubtful
 - c) Annual after-tax cash flows are difficult to estimate
 - d) Timing of cash flows is not exactly predictable

6. An investment proposal should be judged in whether or not it provides:
 - a) A return equal to the return require by the investor

- b) A return more than required by investor
 - c) A return less than required by investor
 - d) A return equal to or more than required**
7. In which of the following approach you need to bring all the projects to the same length in time?
- a) MIRR approach
 - b) Going concern approach
 - c) Common Life approach**
 - d) Equivalent annual approach
8. Which of the following is the general assumption of Percent of Sales Forecasting?
- a) Current Assets usually grow in proportion to Revenues
 - b) Current Assets usually grow in proportion to Expenses
 - c) Current Assets usually grow in proportion to Liabilities
 - d) Current Assets usually grow in proportion to sales**
9. Which of the following is correct, if a firm has a required rate of return equal to the ROE?
- a) The firm can increase market price and P/E by retaining more earnings.
 - b) The firm can increase market price and P/E by increasing the growth rate.
 - c) The amount of earnings retained by the firm does not affect market price or P/E**
 - d) None of the given options
10. Which of the following is NOT true regarding an ordinary annuity?
- a) It is a series of equal cash flows
 - b) Cash flows occur for a specific time period
 - c) Payments are made at the start of each period**
 - d) It is also known as deferred annuity
11. _____ is paid by companies with lower grade bonds like CC or C ratings.
- a) Default risk premium**
 - b) Sovereign Risk Premium
 - c) Market risk premium
 - d) Maturity risk premium
12. Which of the following are the approaches used to make two projects with different life spans comparable?
- a) Modified internal rate of return and equivalent annual annuity
 - b) Common life and equivalent annual annuity**
 - c) Common life and modified internal rate of return
 - d) None of the given options
13. Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?

- a) Discount rate
 - b) Profitability Index**
 - c) Internal rate of return
 - d) Multiple Internal rate of return
14. When a bond will sell at a discount?
- a) The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
 - b) The coupon rate is greater than yield to maturity
 - c) The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
 - d) The coupon rate is less than the current yield and the current yield is less than yield to maturity**
15. When Investors want high plowback ratios?
- a) Whenever $ROE > k$**
 - b) Whenever $k > ROE$
 - c) Only when they are in low tax brackets
 - d) Whenever bank interest rates are high
16. _____ are also known as Spontaneous Financing.
- a) Current Liabilities**
 - b) Current assets
 - c) Fixed assets
 - d) Long-term liabilities
17. Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?
- a) Operational; financial management
 - b) Financial management; accounting
 - c) Accounting; financial management**
 - d) Financial management; operations
18. What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?
- a) Indenture**
 - b) Debenture
 - c) Bond
 - d) Bond trustee
19. Which of the following is type a Temporary Account?
- a) Asset
 - b) Liability
 - c) Reserves
 - d) Revenue**

20. Which of the following is TRUE about IRR (Internal Rate of Return)?
- a) It changes for each and every year over the life of the project
 - b) It remains same for each and every year over the life of project**
 - c) It increases over the life of the project
 - d) It decreases over the life of the project
21. The risk that covers events like unexpected changes in the economy refers to:
- a) Systematic risk**
 - b) Unsystematic risk
 - c) Total risk
 - d) All of the above
22. Which of the following is the general assumption of Percent of Sales Forecasting?
- a) Current Assets usually grow in proportion to Revenues
 - b) Current Assets usually grow in proportion to Expenses
 - c) Current Assets usually grow in proportion to Liabilities
 - d) Current Assets usually grow in proportion to Sales**
23. In 2 years you are to receive Rs.10,000. If the interest rate were to suddenly decrease, the present value of that future amount to you would _____.
- a) Fall
 - b) Rise**
 - c) Remain unchanged
 - d) Incomplete information
24. Effective interest rate is different from nominal rate of interest because:
- a) Nominal interest rate ignores compounding
 - b) Nominal interest rate includes frequency of compounding
 - c) Periodic interest rate ignores the effect of inflation**
 - d) All of the given options
25. Which of the following would generally have unlimited liability?
- a) A limited partner in a partnership
 - b) A shareholder in a corporation
 - c) The owner of a sole proprietorship**
 - d) A member in a limited liability company (LLC)
26. Why we need Capital rationing?
- a) Because, there are not enough positive NPV projects
 - b) Because, companies do not always have access to all of the funds they could make use of**
 - c) Because, managers find it difficult to decide how to fund projects
 - d) Because, banks require very high returns on projects

27. What is the present value of Rs. 3,500,000 to be paid at the end of 50 years if the correct risk adjusted interest rate is 18%?
- a) Rs.105,000
 - b) Rs.1,500,000
 - c) Rs.3975,000
 - d) **Rs. 350,000**
28. When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?
- a) Intrinsic value
 - b) Book value
 - c) **Par value**
 - d) Historic cost
29. Which of the following would be considered a cash-flow item from an "operating" activity?
- a) **Cash outflow to the government for taxes**
 - b) Cash outflow to shareholders as dividends
 - c) Cash inflow to the firm from selling new common equity shares
 - d) Cash outflow to purchase bonds issued by another company
30. Which of the following refers to the risk associated with interest rate uncertainty?
- a) Default risk premium
 - b) Sovereign Risk Premium
 - c) **Market risk premium**
 - d) Maturity risk premium
31. Which of the following refers to a highly competitive market where good business ideas are taken up immediately?
- a) Capital market
 - b) **Efficient market**
 - c) Money market
 - d) Real asset market
32. What is the most important criteria in capital budgeting?
- a) Return on investment
 - b) Profitability index
 - c) **Net present value**
 - d) Pay back period
33. Which of the following statements (in general) is correct?
- a) A low receivables turnover is desirable
 - b) **The lower the total debt-to-equity ratio, the lower the financial risk for a firm**
 - c) An increase in net profit margin with no change in sales or assets means a weaker ROI

- d) The higher the tax rate for a firm, the lower the interest coverage ratio
34. What should be the focal point of financial management in a firm?
- a) The number and types of products or services provided by the firm
 - b) The minimization of the amount of taxes paid by the firm
 - c) **The creation of value for shareholders**
 - d) The dollars profits earned by the firm
35. Which of the following are microeconomic variables that help define and explain the discipline of finance?
- a) Risk and return
 - b) Capital structure
 - c) Inflation
 - d) **All of the above**
36. One primary macroeconomic variable that helps define and explain the discipline of finance?
- a) Capital structure
 - b) Inflation
 - c) **Technology**
 - d) Risk
37. The money markets deal with _____.
- a) Securities with a life of more than one year
 - b) **Short-term securities**
 - c) Securities such as common stock
 - d) None of the above
38. The ability of a firm to convert an asset to cash is called _____.
- a) **Liquidity**
 - b) Solvency
 - c) Return
 - d) Marketability
39. Early in the history of finance, an important issue was:
- a) **Liquidity**
 - b) Technology
 - c) Capital structure
 - d) Financing options
40. The _____ is the most common form of business organization in the U.S.
- a) Corporation
 - b) Partnership
 - c) **Sole Proprietorship**

- d) None of the above
41. The _____ has more sales in dollars than any other form of business organization.
- a) Sole proprietorship
 - b) Partnership
 - c) **Corporation**
 - d) None of the above
42. One major disadvantage of the sole proprietorship is _____.
- a) Simplicity of decision-making
 - b) **Unlimited Liability**
 - c) Low operational costs
 - d) None of the above
43. The appropriate firm goal in a capitalist society is _____.
- a) Profit maximization
 - b) **Shareholder wealth maximization**
 - c) Social responsibility
 - d) None of the above
44. The agency problem will occur in a business firm if the goals of _____ and shareholders do not agree.
- a) Investors
 - b) The public
 - c) **Management**
 - d) None of the above
45. All of the following except one are tax-deductible expenses.
- a) Interest expense
 - b) Depreciation
 - c) **Common stock dividends**
 - d) Income taxes
46. Bondholders receive _____ from the business firm.
- a) Preferred dividend payments
 - b) Common stock payments
 - c) **Interest Payable**
 - d) Royalties
47. The ratio of net income to common shares outstanding is called _____.
- a) Price/earnings ratio
 - b) **Earning Per Share**
 - c) Dividends per share
 - d) None of the above

48. A source of funds is a:
- a) Decrease in a current asset
 - b) Decrease in a current liability
 - c) Increase in a current liability
 - d) **A and C**
49. Short-term financing for a business firm includes:
- a) Bonds
 - b) **Accounts Payable**
 - c) Stockholder's equity
 - d) Mortgages
50. _____ would be most interested in a firm's debt utilization ratios.
- a) Bondholders
 - b) Stockholders
 - c) Short-term creditors
 - d) **Both a & b**
51. The _____ ratio indicates the return firm shareholders are earning.
- a) Return on assets
 - b) Return on investment
 - c) **Return on equity**
 - d) Net profit margin
52. Which of the following is an example of a profitability ratio?
- a) Quick ratio
 - b) Average collection period
 - c) **Return on Equity**
 - d) Times interest earned
53. All of the following are asset utilization ratios except:
- a) Average collection period
 - b) Inventory turnover
 - c) Receivables turnover
 - d) **Return on assets**
54. All of the following can present problems for ratio analysis except:
- a) Inflation
 - b) Inventory accounting methods
 - c) Disinflation
 - d) **All of above**
55. Planning for future growth is called:

- a) Capital budgeting
 - b) Working capital management
 - c) **Financial Forecasting**
 - d) None of the above
56. Which one of the following is NOT a tool of financial forecasting?
- a) Cash budget
 - b) **Capital budget**
 - c) Pro forma balance sheet
 - d) Pro forma income statement
57. The first step in developing a pro forma income statement is to:
- a) **Build a sales forecast**
 - b) Determine the production schedule
 - c) Determine cost of goods sold
 - d) None of the above
58. Pro forma statements are _____ statements.
- a) Actual
 - b) **Projected**
 - c) A previous year's
 - d) None of the above
59. All of the following compose cost of goods sold except _____.
- a) Raw material
 - b) Labor
 - c) Overhead
 - d) **All of above**
60. Financial managers use the _____ to plan for monthly financing needs.
- a) Capital budget
 - b) **Cash Budget**
 - c) Pro forma income statement
 - d) None of the above
61. The payments that a firm collects from its customers are called _____.
- a) Cash disbursements
 - b) Cash outflows
 - c) **Cash Receipts**
 - d) None of the above
62. Examples of cash disbursements are all but _____.
- a) Payment for materials purchased
 - b) **Collection of accounts receivables**
 - c) Payment of dividends
 - d) Payment of taxes

63. In developing the pro forma balance sheet, we get common stock from _____.
- a) **The firm's previous balance sheet**
 - b) The firm's cash budget
 - c) The firm's income statement
 - d) None of the above
64. The percent of sales method of financial forecasting shows us the relationship between _____ and financing needs.
- a) Changes in the level of liabilities
 - b) Changes in the level of assets
 - c) Changes in debt
 - d) **Changes in level of sales**
65. An example of a semi-variable cost is:
- a) Rent
 - b) Raw material
 - c) Depreciation
 - d) **Utilities**
66. _____ is the point at which firm profit is equal to zero.
- a) **Break Even**
 - b) Operating breakeven
 - c) Financial leverage
 - d) Combined breakeven
67. In breakeven analysis, if fixed costs rise, then the breakeven point will _____.
- a) Fall
 - b) **Rise**
 - c) Stay the same
 - d) None of the above
68. In the breakeven formula, Price - Variable Cost is called the _____.
- a) Breakeven point
 - b) Leverage
 - c) **Contribution Margin**
 - d) None of the above
69. Which of the following types of firms may operate with high operating leverage?
- a) A doctor's office
 - b) **An auto manufacturing facility**
 - c) A mental health clinic
 - d) None of the above would have high operating leverage
70. The _____ is the percentage change in operating income that results from a percentage change in sales.

- a) **Degree of financial leverage**
- b) Breakeven point
- c) Degree of operating leverage
- d) Degree of combined leverage

71. If interest expenses for a firm rise, we know that firm has taken on more _____.

- a) **Financial Leverage**
- b) Operating leverage
- c) Fixed assets
- d) None of the above

72. The _____ is the percentage change in earnings per share that results from a percentage change in operating income.

- a) Degree of combined leverage
- b) **Degree of financial Leverage**
- c) Breakeven point
- d) Degree of operating leverage

73. Combined leverage is the percentage change in relationship between sales and _____.

- a) Operating income
- b) Operating leverage
- c) **Earning per Share**
- d) Breakeven point

74. A highly leveraged firm is _____ risky than its peers.

- a) Less
- b) More
- c) The same
- d) None of the above

75. Working capital management involves the financing and management of the _____ assets of the firm.

- a) Fixed
- b) Total
- c) **Current**
- d) None of the above

76. An asset sold at the end of a specified time period is called a _____ asset.

- a) Temporary current
- b) **Self Liquidating**
- c) Current
- d) Permanent current

77. Fixed assets are usually financed with _____ funds.

- a) Long Term
 - b) Short-term
 - c) Permanent
 - d) None of the above
78. _____ is usually used to finance self-liquidating assets.
- a) Long-term financing
 - b) Short term financing**
 - c) Permanent financing
 - d) None of the above
79. Short-term interest rates, in a normal economy, are generally _____ than long-term rates.
- a) Higher
 - b) The same
 - c) Lower**
 - d) None of the above
80. The expectations hypothesis says that _____ interest rates are a function of _____ interest rates.
- a) Short-term; long-term
 - b) Long Term; Short term**
 - c) Short-term; short-term
 - d) None of the above
81. Insurance companies would tend to invest in _____ securities.
- a) Short-term
 - b) Intermediate term
 - c) Long term**
 - d) Not enough information to answer
82. The _____ theory says that investors must be paid a premium to hold long-term securities.
- a) Expectations hypothesis
 - b) Time value theory
 - c) Segmentation
 - d) Liquidity Premium**
83. Short-term financing plans with high liquidity have:
- a) High return and high risk
 - b) Moderate return and Moderate Risk**
 - c) Low profit and low risk
 - d) None of the above
84. Long-term financing plans with low liquidity have:
- a) High return and high risk

- b) **Moderate return and moderate risk**
 - c) Low return and low risk
 - d) None of the above
85. The transaction motive for holding cash is for
- a) A safety cushion
 - b) **Daily operating requirements**
 - c) Compensating balance requirements
 - d) None of the above
86. Which of the following motives for holding cash is required by the bank before loaning money?
- a) **Compensating balance motive**
 - b) Transactions motive
 - c) Precautionary motive
 - d) None of the above
87. The difference between the cash balance on the firm's books and the balance shown on the bank's books is called:
- a) The compensating balance
 - b) **Float**
 - c) A safety cushion
 - d) None of the above
88. Electronic funds transfer has _____ the use of float.
- a) **Reduced**
 - b) Increased
 - c) Had no effect on
 - d) None of the above
89. The most utilized marketable security by most firms is the:
- a) Treasury bond
 - b) Agency security
 - c) Certificate of Deposit
 - d) **Treasury Bill**
90. Of the following marketable securities, which are guaranteed by the Federal government?
- a) Agency securities
 - b) Negotiable certificates of deposit
 - c) Banker's acceptances
 - d) **None of the above**
91. The 5 C's of credit include:
- a) Conditions
 - b) Collateral
 - c) Character

- d) **All of the Above**
92. The use of safety stock by a firm will:
- a) Reduce inventory costs
 - b) **Increase in Inventory Cost**
 - c) Have no effect on inventory costs
 - d) None of the above
93. All of these factors are used in credit policy administration except:
- a) Credit standards
 - b) Terms of trade
 - c) **Dollar amount of receivables**
 - d) Collection policy
94. Firms aim to hold _____ cash balances since cash is a non-interest earning asset.
- a) **Low**
 - b) Average
 - c) High
 - d) None of the above
95. The largest provider of short-term credit for a business is:
- a) Banking organizations
 - b) **Suppliers to the firm**
 - c) Commercial paper
 - d) Eurodollars
96. The number of days until the firm is past due to a supplier is called the:
- a) Discount period
 - b) Term to credit
 - c) **Payment period**
 - d) None of the above
97. If a firm is given trade credit terms of 2/10, net 30, then the cost of the firm failing to take the discount is:
- a) 2%
 - b) 30%
 - c) **36.72%**
 - d) 10%
98. The interest rate given by a bank to its most creditworthy customers is the:
- a) **Prime Rate**
 - b) LIBOR rate
 - c) Federal funds rate
 - d) Discount rate

99. Which of the following types of bank loans generally have the highest effective rate of interest?
- a) Simple interest loan
 - b) Discount interest loan
 - c) Loan with a compensating balance
 - d) **Installment Loan**
100. If a firm needs to borrow Rs. 100,000, at 8% interest, to finance working capital needs and a 20% compensating is required, then the firm should borrow _____.
- a) Rs. 100,000
 - b) Rs. 80,000
 - c) **Rs. 125,000**
 - d) Rs. 108,000
101. If a bank offers a firm a simple interest loan of Rs. 1000 for 120 days at a cost of Rs. 60 interest, what is the effective rate of interest on the loan?
- a) **18%**
 - b) 6%
 - c) 20%
 - d) None of the above
102. If a company raises money to finance short-term needs by selling its accounts receivable to another party, this is called _____.
- a) Pledging
 - b) Warehousing
 - c) **Factoring**
 - d) None of the above
103. The most restrictive policy for using inventory as collateral for short-term borrowing is called:
- a) Blanket inventory lien
 - b) **Warehousing Inventory**
 - c) Trust receipt
 - d) Factoring
104. A type of accounts receivable financing where a firm uses its receivables as collateral is called:
- a) **Pledging**
 - b) Securitization
 - c) Factoring
 - d) Warehousing
105. Both the future and present value of a sum of money are based on:
- a) Interest rate
 - b) Number of time periods
 - c) **Both a & b**

- d) None of the above
106. An annuity is _____.
- a) More than one payment
 - b) A series of unequal but consecutive payments
 - c) **A series of equal and consecutive payments**
 - d) A series of equal and non-consecutive payments
107. If you have Rs. 1000 and you plan to save it for 4 years with an interest rate of 10%, what is the future value of your savings?
- a) **Rs. 1464**
 - b) Rs. 1000
 - c) Rs. 1331
 - d) Cannot be determined
108. 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 above**
109. The present value of a dollar to be received in the future is:
- a) More than a dollar
 - b) Equal to a dollar
 - c) **Less than a dollar**
 - d) None of the above
110. The future value of a dollar that you invest today is:
- a) **More than a dollar**
 - b) Equal to a dollar
 - c) Less than a dollar
 - d) None of the above
111. The future value of an annuity is:
- a) Less than each annuity payment
 - b) Equal to each annuity payment
 - c) **More than each annuity payment**
 - d) None of the above
112. The concepts of present value and future value are:
- a) Directly related to each other
 - b) Not related to each other
 - c) Proportionately related to each other
 - d) **Inversely related to each other**
113. If you win the lottery and you choose to have your proceeds distributed to you over a twenty-year time period, with the first payment coming to you one year from

today, which calculation would you use to calculate the worth of those proceeds to you today?

- a) Future value of a lump sum
 - b) Future value of an annuity
 - c) Present value of a lump sum
 - d) **Present value of annuity**
114. You have Rs. 1000 you want to save. If four different banks offer four different compounding methods for interest, which method should you choose to maximize your Rs. 1000?
- a) **Compounded Daily**
 - b) Compounded quarterly
 - c) Compounded semi-annually
 - d) Compounded annually
115. In valuing a financial asset, you use these variables:
- a) Present value of future cash flows
 - b) Discount rate
 - c) Required rate of return
 - d) **All of the above**
116. The principal amount of a bond at issue is called:
- a) **Par value**
 - b) Coupon value
 - c) Present value of an annuity
 - d) Present value of a lump sum
117. If a bond's value rises above its par value during its life, interest rates have:
- a) Gone up
 - b) **Gone Down**
 - c) Stayed the same
 - d) There is no correlation with interest rates
118. The basic "rent" that you are charged when you borrow money is called:
- a) Inflation premium
 - b) Risk premium
 - c) **Real rate of return**
 - d) None of the above
119. As time to maturity draws near, a bond's value approaches:
- a) Zero
 - b) **Par**
 - c) The coupon payment
 - d) None of the above

120. One characteristic of preferred stock is that:
- a) It has no maturity date
 - b) It is a hybrid security with characteristics of both common stock and debt
 - c) It pays a fixed dividend payment
 - d) **All of the above**
121. Common stock that has no growth in dividends is valued as if it were:
- a) **Preferred stock**
 - b) A bond
 - c) An option
 - d) None of the above
122. A high price/earnings ratio usually indicates that a firm is a:
- a) Value stock
 - b) **Growth Stock**
 - c) Convertible security
 - d) Constant security
123. A low price/earnings ratio usually means that a firm:
- a) Is a growth stock
 - b) Has positive expectations for the future
 - c) **Is a mature firm**
 - d) Is doomed in the marketplace.
124. The premium to compensate an investor for the eroding effect of rising prices is called the:
- a) Risk premium
 - b) **Inflation Premium**
 - c) Real rate of return
 - d) None of the above
125. A firm's cost of capital is the:
- a) Cost of borrowing money
 - b) Cost of issuing stock
 - c) Cost of bonds
 - d) **Overall cost of financing to the firm**
126. The cost of debt financing is generally _____ the cost of preferred or common equity financing.
- a) **Less than**
 - b) More than
 - c) Equal to
 - d) Not enough information to tell
127. The cost of preferred stock is usually more than the cost of debt because of:

- a) Low dividends
 - b) Tax deductibility of interest payments on debt**
 - c) High stock price
 - d) None of the above
128. The cost of issuing new stock is called:
- a) The cost of equity
 - b) Flotation Costs**
 - c) Marginal cost of capital
 - d) None of the above
129. The cost of retained earnings does not consider _____ in the equation.
- a) Flotation costs**
 - b) The dividend in the next time period
 - c) The value of the common equity
 - d) The growth rate of dividends
130. The most expensive source of financing for a firm is:
- a) Debt
 - b) Preferred stock
 - c) Retained earnings
 - d) New Common Stock**
131. The cost of capital at the retained earnings breakpoint is the:
- a) Weighted average cost of capital
 - b) Marginal cost of capital**
 - c) Cost of new stock
 - d) None of the above
132. The cost of each component of a firm's capital structure multiplied by its weight in the capital structure is called the:
- a) Marginal cost of capital
 - b) Cost of debt
 - c) Weighted average cost of Capital**
 - d) None of the above
133. When establishing their optimal capital structure, firms should strive to:
- a) Minimize the weighted average cost of capital**
 - b) Minimize the amount of debt financing used
 - c) Maximize the marginal cost of capital
 - d) None of the above
134. The overall cost of financing for the firm is called the:
- a) Weighted Average cost of capital**
 - b) Cost of preferred stock
 - c) Retained earnings breakpoint

- d) None of the above
135. _____ focuses on long-term decision-making regarding the acquisition of projects.
- a) Working Capital Management
 - b) Capital budgeting**
 - c) Cash Budgeting
 - d) None of the above
136. Since capital budgeting uses cash flows instead of accounting flows, the financial manager must add back _____ to the analysis.
- a) The cost of fixed assets
 - b) The cost of accounts payable
 - c) Investments
 - d) Depreciation**
137. Which of the following capital budgeting methods focuses on firm liquidity?
- a) Payback Method**
 - b) Net present value
 - c) Internal rate of return
 - d) None of the above
138. When faced with mutually exclusive option, which project should be accepted under the payback method?
- a) The one with the longest payback period.
 - b) The one with the shortest Payback period.
 - c) It doesn't matter because the payback method is not theoretically correct**
 - d) None of the above.
139. If the Net Present Values of two, mutually exclusive options are both greater than zero, which option should be selected if the firm uses the Net Present Value method?
- a) The one with the Largest NPV**
 - b) The one with the smallest Net Present Value.
 - c) Either one. Both are greater than the cost of capital.
 - d) None of the above
140. If the Internal Rates of Return of two, mutually exclusive options are both greater than the cost of capital, which option should be selected under the Internal Rate of Return method?
- a) The one with the largest IRR**
 - b) The one with the smallest Internal Rate of Return.
 - c) The one with the highest Net Present Value at the firm's cost of capital.
 - d) None of the above
141. If two projects are independent, that means that _____.
- a) Selection of one precludes selection of the other.

- b) **You should analyze the projects independently**
 - c) Both a and b
 - d) None of the above
142. According to the reinvestment rate assumption, which method of capital budgeting assumes cash flows are reinvested at the project's rate of return?
- a) Payback period
 - b) Net present value
 - c) **Internal Rate of Return**
 - d) None of the above
143. When a firm places a budgetary constraint on the projects it invests in, this is called:
- a) **Capital Rationing**
 - b) Working capital management
 - c) Cash budgeting
 - d) None of the above
144. Which of the following capital budgeting methods states the return of a project as a percentage?
- a) Payback period
 - b) Net present value
 - c) **Internal Rate of Return**
 - d) None of the above
145. Because investors dislike uncertainty, they will require _____ rates of return from risky investments.
- a) **Higher**
 - b) Lower
 - c) The same
 - d) None of the above
146. _____ is the variability of possible outcomes from a given investment.
- a) Beta
 - b) Return
 - c) **Risk**
 - d) Variance
147. Generally, the larger the standard deviation of an investment's expected outcomes, the _____ the risk.
- a) **Higher**
 - b) Lower
 - c) Less volatile
 - d) None of the above

148. When stocks are held in a portfolio instead of individually, which measure of risk is appropriate?
- a) Standard deviation
 - b) Beta
 - c) **Coefficient of Variation**
 - d) None of the above
149. If an individual stock's beta is higher than 1.0, that stock is:
- a) Exactly as risky as the market.
 - b) **Riskier than the market**
 - c) Less risky than the market
 - d) None of the above
150. The component of the risk-adjusted discount rate that is derived from the risk of Treasury securities is:
- a) Risk premium
 - b) Cost of capital
 - c) Call premium
 - d) **Risk Free rate**
151. The component of the risk-adjusted discount rate that compensates the investor for holding risky assets is the:
- a) Risk-free rate
 - b) Cost of capital
 - c) **Risk Premium**
 - d) None of the above
152. The standard deviation measures:
- a) Portfolio risk
 - b) **The risk of an individual Security**
 - c) The risk of two securities, with different expected returns, compared to each other
 - d) None of the above
153. Coefficient of variation measures:
- a) Portfolio risk
 - b) The risk of an individual security
 - c) **The degree of risk per unit of expected return**
 - d) None of the above
154. The automobile industry and the heavy manufacturing industry probably have expected returns with a _____ correlation.
- a) **Positive**
 - b) Perfect positive
 - c) Negative
 - d) Slightly negative

155. The U.S. capital markets are composed of securities with maturities of _____.
- a) Less than one year
 - b) One year
 - c) **One year and greater**
 - d) None of the above
156. The following can be classified as a capital market security:
- a) Banker's acceptance
 - b) U.S. Treasury bills
 - c) Money market mutual fund
 - d) **Common Stock**
157. Which of the following types of securities are exempt from at least some taxes?
- a) Federally sponsored agency securities
 - b) **Municipal Bonds**
 - c) Common stock
 - d) Preferred stock
158. Which of the following financial markets is the largest in terms of dollar value?
- a) Derivatives market
 - b) Stock market
 - c) **Bonds Market**
 - d) Commercial paper market
159. Which of the following is a source of internal capital for the business firm?
- a) Retained earnings
 - b) Depreciation
 - c) Common stock
 - d) **A & B**
160. Which of the following is not an organized exchange?
- a) AMEX
 - b) NASDAQ
 - c) NYSE
 - d) **None of the above**
161. Recently stock exchanges have moved toward share prices stated in _____.
- a) Fractions
 - b) Whole numbers
 - c) **Decimals**
 - d) None of the above
162. The regulatory body for the New York Stock Exchange is _____.
- a) U.S. Treasury
 - b) **Securities and Exchange Commission**

- c) National Association of Securities Dealers
 - d) All of the above
163. Which piece of legislation was enacted in order to establish a national securities market?
- a) Securities Act of 1933
 - b) Securities Exchange Act of 1934
 - c) **Securities Acts Amendments of 1975**
 - d) None of the above
164. Investment bankers are intermediaries between business firms and _____.
- a) Banks
 - b) Securities dealers
 - c) **The investing public**
 - d) None of the above
165. Leveraged buyouts rely on _____ to purchase a firm.
- a) **Debt**
 - b) Equity
 - c) Cash
 - d) None of the above
166. An investment banker may engage in buying and selling a new issue of securities in order to ensure a liquid market. This function is called _____.
- a) **Market Making**
 - b) Advising
 - c) Agency function
 - d) Underwriting
167. _____ of earnings may occur after a new stock issue is made.
- a) Maximization
 - b) **Dilution**
 - c) Termination
 - d) Stabilization
168. How long does an investment banker usually try to stabilize the market after an initial public offering?
- a) **2-3 days**
 - b) 2-3 months
 - c) 1 month
 - d) None of the above
169. A disadvantage of being a public company is:
- a) The ability to have greater access to the capital markets
 - b) Having the ability to engage in merger
 - c) **Disclosure of information to SEC**
 - d) All of the above are advantages

170. _____ is the most popular way of raising debt capital for most corporations.
- a) Bank loans
 - b) Public debt issues
 - c) **Private debt issues**
 - d) None of the above
171. Which of the following are functions of an investment banker?
- a) Underwriter
 - b) Market maker
 - c) Advisor
 - d) **All of Above**
172. The principal value of a bond is called the:
- a) The coupon rate
 - b) **The Par Value**
 - c) The maturity value
 - d) None of the above
173. The _____ is the stated interest rate at the time the bond was issued.
- a) **Coupon Rate**
 - b) Effective rate
 - c) Yield to maturity
 - d) Internal rate of return
174. A _____ is a long-term senior bond without collateral.
- a) Subordinated debenture
 - b) **Debenture**
 - c) Junior debenture
 - d) Indenture
175. The method of bond repayment where bonds are paid off in installments over the life of the bond issue is called:
- a) Sinking fund provision
 - b) Call provision
 - c) **Serial Payment**
 - d) Conversion
176. The method of bond repayment where debt is converted to shares of common stock in the company is called:
- a) Serial repayment
 - b) **Conversion**
 - c) Sinking fund provision
 - d) Call feature

177. Firms generally decide to call their bonds when interest rates:
- a) Rise
 - b) **Drop**
 - c) Remain the same
 - d) There is no relationship between interest rates and the call provision
178. The current yield on a bond worth Rs. 900 with a par value of Rs. 1000 and a coupon rate of 10% is:
- a) 10%
 - b) **11.11%**
 - c) 12.05%
 - d) None of the above
179. Zero coupon bonds:
- a) Are sold at par.
 - b) Pay no interest payment
 - c) Are sold at a deep discount.
 - d) **B and C**
180. An advantage of debt financing is:
- a) Interest payments are tax deductible
 - b) The use of debt, up to a point, lowers the firm's cost of capital
 - c) Does not dilute owner's earnings
 - d) **All of the above**
181. A capital lease:
- a) Is generally used by corporations more often than an operating lease.
 - b) Is placed on the balance sheet.
 - c) Is capitalized.
 - d) **All of the above**
182. _____ have a claim to the residual income of the firm.
- a) Bondholders
 - b) Preferred Stockholders
 - c) **Common Stockholders**
 - d) None of the above

183. _____ voting elects a member of the board of directors of a firm with a 51% vote.
- a) Cumulative
 - b) Preferred
 - c) **Majority**
 - d) None of the above
184. Which of the following types of voting includes minority shareholders?
- a) **Cumulative**
 - b) Preferred
 - c) Majority
 - d) None of the above
185. If a corporate charter says that current stockholders must be given the first option to purchase new stock, then that is a _____ rights offering.
- a) **Pre-emptive**
 - b) Rights-on
 - c) Ex-rights
 - d) None of the above
186. When a rights offering is announced, the stock initially trades:
- a) Ex-rights
 - b) **Rights-On**
 - c) No-rights
 - d) Pre-emptive right
187. _____ makes a firm unattractive in case of a takeover bid.
- a) Rights offering
 - b) Greenmail
 - c) **Poison Pill**
 - d) Black Knight
188. _____ are certificates that have a legal claim on an ownership interest in a foreign company's stock.
- a) Stock certificates
 - b) Preferred stock
 - c) Bond indentures
 - d) **American depository receipts**

189. Securities that have a mandatory dividend are:
- a) Bonds
 - b) Preferred stock
 - c) Common stock
 - d) **None**
190. One provision of preferred stock is that they can participate in the firm's yield during good years. That provision is _____.
- a) The call provision
 - b) Cumulative dividends
 - c) **The participation provision**
 - d) The conversion provision
191. Which of the following have ownership interest in the firm?
- a) **Common Stockholders**
 - b) Preferred stockholders
 - c) Bondholders
 - d) All of the above
192. The Board of Directors may do which of the following with net income?
- a) Put it in the cash account
 - b) Retain it
 - c) Pay it out as dividends
 - d) **B & C**
193. One desire of stockholders regarding dividend policy is:
- a) **Stable Dividends**
 - b) Frequent dividends
 - c) Low dividends
 - d) High dividends
194. A stock dividend:
- a) Increases the value of stockholder's equity.
 - b) Decreases the value of stockholder's equity
 - c) **Does not change the value of stockholder's equity**
 - d) None of the above
195. The purpose of a stock split is usually to:
- a) Increase the investor's wealth

- b) **Bring down the stock price into a lower trading range**
 - c) Reduce of threat of takeover
 - d) Decrease the number of shares outstanding
196. As a result of the Jobs and Growth Tax Relief Act of 2003, dividends and capital gains are taxed at a maximum rate of:
- a) 38.6%
 - b) **20%**
 - c) 15%
 - d) None of the above
197. Which of the following balance sheet accounts will be affected by a stock dividend but not by a stock split?
- a) Dividends in arrears
 - b) Cash
 - c) Common stock
 - d) **Retained earnings**
198. A firm may repurchase its own stock because:
- a) It provides positive information about the firm.
 - b) The firm has inadequate capital budgeting alternatives
 - c) It will increase shareholder's wealth
 - d) **All of above**
199. A stock split:
- a) **Does not change the amount in the common stock account**
 - b) Is treated by accountants just like a stock dividend
 - c) Reduces retained earnings
 - d) None of the above
200. The ex-dividend date is the date:
- a) On which recipients of the dividend are determined
 - b) The dividend is declared
 - c) **Which no longer includes dividend payments for stock bought on that date**
 - d) None of the above
201. Individuals in a high tax bracket typically prefer for a firm to:
- a) Issue dividends
 - b) **Retained Earning**
 - c) Hold cash

- d) None of the above
202. The conversion ratio is the:
- a) Ratio of the conversion premium to market value of the convertible security.
 - b) Price at which a convertible security is exchanged for common stock.
 - c) **Number of share of common stock in to which the convertible may be converted**
 - d) None of the above
203. The floor value for a convertible bond is:
- a) The conversion value
 - b) **The pure bond value**
 - c) The conversion price
 - d) None of the above
204. A convertible security is:
- a) A security that can be converted into debt at the option of the owner.
 - b) A security that can be converted into preferred stock at the option of the owner.
 - c) **A security that can be converted into common stock at the option of owner**
 - d) None of the above
205. The conversion price is usually _____ than the market price of the common stock at the time the bond issue is sold.
- a) **Higher**
 - b) Lower
 - c) None of the above
206. The interest rate on convertibles is generally _____ the interest rate on nonconvertible securities.
- a) Greater than
 - b) **Less than**
 - c) None of the above
207. The conversion premium will be large:
- a) **If Investors think the price of the stock will rise**
 - b) If interest rates decline
 - c) When the stock price is falling
 - d) None of the above

208. The price of a convertible bond:
- a) Has upside and downside limits
 - b) **Has only downside limits**
 - c) Has only upside limits
 - d) None of the above
209. Warrants are:
- a) **Investments whose value is directly related to the price of the underlying stock**
 - b) The same as call options
 - c) The same as put options
 - d) None of the above
210. Which of the following is an advantage of a convertible bond?
- a) Downside protection is ineffectual if the bond is bought at a large premium over par value
 - b) Conversion may be forced on the bondholder by call provisions on the convertible bond
 - c) **There is downside risk for the investors**
 - d) None of the above
211. A step-up in the conversion price refers to:
- a) The ability of the company to step up the maturity of the bond to an earlier date.
 - b) A shorter time to call
 - c) **The provision that decreases the conversion ratio the longer the bond is held**
 - d) None of the above
212. Which of the following is NOT a potential benefit of merger?
- a) Synergy
 - b) Portfolio Effect
 - c) **Dilution of EPS**
 - d) Tax loss carry forward
213. A business combination where the two firms who are merging develop a new firm is called:
- a) A horizontal merger
 - b) A vertical merger
 - c) **A business consolidation**

- d) None of the above
214. The price that an acquiring company must pay for the acquired company is:
- a) Book value
 - b) Market value
 - c) **A higher price than market value**
 - d) None of the above
215. The typical merger premium is:
- a) 20%
 - b) 20-40%
 - c) **40-60%**
 - d) None of the above
216. Merging with an unrelated company is called a _____ merger.
- a) **Conglomerate**
 - b) Horizontal
 - c) Vertical
 - d) None of the above
217. A business combination where the resulting firm maintains the identity of the acquiring firm is called a:
- a) Conglomerate
 - b) **Merger**
 - c) Consolidation
 - d) None of the above
218. Which of the following is a tender offer that uses debt to buy the firm?
- a) Hostile takeover
 - b) Negotiated merger
 - c) Two-step buyout
 - d) **Leveraged buyout**
219. The financial motives for merger include all of the following except:
- a) The portfolio effect
 - b) Improved access to the capital markets
 - c) Tax loss carry forwards
 - d) **Synergy**

220. The elimination of overlapping functions and the meshing of two firms' strong areas creates the managerial incentive for merger that is called:
- a) Pooling of interest
 - b) Purchase of assets
 - c) **Synergy**
 - d) None of the above
221. Which of the following kinds of mergers lead to diversification benefits?
- a) Vertical
 - b) **Conglomerate**
 - c) Horizontal
 - d) None of the above
222. What type of MNC produces a product domestically and ships it to a foreign market?
- a) Joint venture
 - b) **Fully owned foreign subsidiary**
 - c) Exporter
 - d) Importer
223. When an MNC cannot produce an actual product in a foreign subsidiary due to political restrictions, it can export technology and knowledge through:
- a) An exporter
 - b) A joint venture
 - c) An importer
 - d) **A Licensing Agreement**
224. Many MNCs prefer _____ above all other methods of establishing a foreign presence.
- a) Exporting
 - b) **Joint Ventures**
 - c) Fully owned foreign subsidiaries
 - d) None of the above

225. What one currency is worth in terms of another currency is called a(n) _____.
- a) Euro
 - b) **Exchanging Rate**
 - c) Spot rate
 - d) Forward rate
226. Currency exchange rates tend to vary inversely with their _____.
- a) Interest rates
 - b) Cross rate
 - c) **Purchasing Power**
 - d) Economic power
227. The system of government accounts that catalog the flow of economic transactions between the residents of one country and the residents of other countries is called _____.
- a) A joint venture
 - b) Current account
 - c) **Balance of payments**
 - d) Balance of interest rates
228. The exchange rate that is paid for a currency for immediate delivery is the:
- a) **Spot Rate**
 - b) Cross rate
 - c) Forward rate
 - d) None of the above
229. The exchange rate between two currencies outside the American dollar is called the:
- a) Forward rate
 - b) **Cross rate**
 - c) Spot rate
 - d) None of the above
230. A multinational corporation may be defined as:
- a) A company that imports foreign products
 - b) A company that hires foreign labor
 - c) **A company which carries on business activity outside Country**
 - d) None of the above

231. A fully owned foreign subsidiary is a form of MNC in which:
- a) **The MNC owns and operates the firm by itself**
 - b) The MNC has a partner in the foreign country.
 - c) The foreign government is cooperative.
 - d) None of the above
232. Find the Expected Return on the Market Portfolio given that the Expected Return on Stock is 17%, the Risk-Free Rate is 1.1%, and the Beta for Stock is 1.5.
- a) **11.7%**
 - b) 12.14%
 - c) 13.23%
 - d) 13.82%
233. Which of the following represent all Risk –Return Combinations for the efficient portfolios in the capital market?
- a) Parachute graph
 - b) CML straight line equation
 - c) Security market line
 - d) **All of the given**
234. What is the present value of Rs.1,000 to be paid at the end of 5 years if the correct risk adjusted interest rate is 8%?
- a) Rs.714
 - b) **Rs.1,462**
 - c) Rs.322.69
 - d) Rs.401.98
235. Given no change in required returns, the price of a stock whose dividend is constant will_____.
- a) Decrease over time at a rate of r%
 - b) **Remain unchanged**
 - c) Increase over time at a rate of r%
 - d) Decrease over time at a rate equal to the dividend growth rate
236. Which of the following is NOT a cash outflow for the firm?
- a) **Depreciation**
 - b) Dividends
 - c) Interest
 - d) Taxes
237. The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.
- a) IRR
 - b) **MIRR**

- c) PV
 - d) NPV
238. All of the following are the financial statements used for the purpose of reporting and analysis EXCEPT:
- a) Balance Sheet
 - b) Income Statement
 - c) **Cash budget**
 - d) Statement of Retained Earnings
239. How "Shareholder wealth" is represented in a firm?
- a) The number of people employed in the firm
 - b) The book value of the firm's assets less the book value of its liabilities
 - c) **The market price per share of the firm's common stock**
 - d) The amount of salary paid to its employees
240. The value of a bond is directly derived from which of the following?
- a) Cash flows
 - b) Coupon receipts
 - c) Par recovery at maturity
 - d) **All of the given**
241. What should be the focal point of financial management in a firm?
- a) The number and types of products or services provided by the firm
 - b) The minimization of the amount of taxes paid by the firm
 - c) **The creation of value for shareholders**
 - d) The dollars profits earned by the firm
242. What is difference between shares and bonds?
- a) Bonds are representing ownership whereas shares are not
 - b) **Shares are representing ownership whereas bonds are not**
 - c) Shares and bonds both represent equity
 - d) Shares and bond both represent liabilities
243. Which of the following is NOT true regarding an annuity due?
- a) It is a series of equal cash flows
 - b) **It is also known as deferred annuity**
 - c) Cash flows occur for a specific time period
 - d) Payments are made at the start of each period
244. Which of the following techniques would be used for a project that has non-normal cash flows?
- a) Internal rate of return
 - b) **Multiple internal rate of return**
 - c) Modified internal rate of return

- d) Net present value
245. Which of the following is the general assumption of Percent of Sales Forecasting?
- a) Current Assets usually grow in proportion to Revenues
 - b) Current Assets usually grow in proportion to Expenses
 - c) Current Assets usually grow in proportion to Liabilities
 - d) **Current Assets usually grow in proportion to Sales**
246. Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?
- a) **Operational; financial management**
 - b) Financial management; accounting
 - c) Accounting; financial management
 - d) Financial management; operations
247. Which of the following is FALSE about Perpetuity?
- a) It is a series of cash flows
 - b) **Cash flows occur for a specific time period**
 - c) Its cash flows are identical
 - d) None of the given
248. The value of the bond is NOT directly tied to the value of which of the following assets?
- a) Real assets of the business
 - b) **Liquid assets of the business**
 - c) Fixed assets of the business
 - d) Long term assets of the business
249. Nominal Interest Rate is also known as:
- a) Effective interest Rate
 - b) **Annual percentage rate**
 - c) Periodic interest rate
 - d) Required interest rate
250. Which of the following refers to time value of money concept?
- a) A rupee in one's hand at present is worth less than the rupee that one is going to receive tomorrow
 - b) **A rupee in one's hand at present is worth more than the rupee that one is going to receive tomorrow**
 - c) A rupee in one's hand at present is worth same as the rupee that one is going to receive tomorrow
 - d) All of the given
251. Which of the following is a major disadvantage of the corporate form of organization?
- a) **Double taxation of dividends**

- b) Inability of the firm to raise large sums of additional capital
 - c) Limited liability of shareholders
 - d) Limited life of the corporate form
252. What are the Indirect securities?
- a) The securities whose value depends on the cash flows generated by the underlying assets
 - b) **The securities whose value depends on the value of the underlying assets**
 - c) The securities that indirectly generate returns for its investors
 - d) All of the given
253. Which if the following refers to capital budgeting?
- a) Investment in long-term liabilities
 - b) **Investment in fixed assets**
 - c) Investment in current assets
 - d) Investment in short-term liabilities
254. A technique that tells us the number of years required to recover our initial cash investment based on the project's expected cash flows is:
- a) **Pay back period**
 - b) Internal rate of return
 - c) Net present value
 - d) Profitability index
255. The value of the bond is NOT directly tied to the value of which of the following assets?
- a) Real assets of the business
 - b) **Liquid assets of the business**
 - c) Fixed assets of the business
 - d) Long term assets of the business
256. Why we need Capital rationing?
- a) Because, there are not enough positive NPV projects
 - b) **Because, companies do not always have access to all of the funds they could make use of**
 - c) Because, managers find it difficult to decide how to fund projects
 - d) Because, banks require very high returns on projects
257. When the zero coupon bond approaches to its maturity, the market value of the bond approaches to which of the following?
- a) Intrinsic value
 - b) Book value

- c) **Par value**
- d) Historic cost
258. What is the additional amount a borrower must pay to lender to compensate for assuming the risk associated with non-payment?
- Default risk premium**
 - Sovereign Risk Premium
 - Market risk premium
 - Maturity risk premium
259. Which of the following equation is NOT correct?
- Gross Revenue – Admin & Operating Expenses = Operating Revenue
 - Other Expenses + Other Revenue = EBIT**
 - EBIT – Financial Charges & Interest = EBT
 - Net Income – Dividends = Retained Earning
260. Which of the following will NOT equate the future value of cash inflows to the present value of cash outflows?
- Discount rate
 - Profitability index
 - Internal rate of return
 - Multiple Internal rate of return**
261. When a bond will sell at a discount?
- The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
 - The coupon rate is greater than yield to maturity
 - The coupon rate is less than the current yield and the current yield is greater than the yield to maturity**
 - The coupon rate is less than the current yield and the current yield is less than yield to maturity
262. What type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?
- Long-term debt
 - Preferred stock**
 - Common stock
 - None of the given
263. Which of the following is type a Temporary Account?
- Asset
 - Liability
 - Reserves**
 - Revenue
264. What are the Direct claim securities?

- a) **The securities whose value depends on the cash flows generated by the underlying assets**
 - b) The securities whose value depends on the value of the underlying assets
 - c) The securities that do not directly generate any returns for its investors
 - d) All of the given
265. Which of the following term may be defined as incidental cash flows that arise because of the effect of new project on the running business?
- a) Sunk cost
 - b) Opportunity cost
 - c) **Externalities**
 - d) Contingencies
266. Which of the following allows to graphically depicting the timing of the cash flows as well as their nature as either inflows or outflows?
- a) **Cash flow diagram**
 - b) Cash budget
 - c) Cash flow statement
 - d) None of the given
267. As interest rates go up, the present value of a stream of fixed cash flows ____.
- a) **Goes down**
 - b) Goes up
 - c) Stays the same
 - d) Can not be found from the given information
268. _____ are also known as Spontaneous Financing.
- a) **Current liabilities**
 - b) Current assets
 - c) Fixed assets
 - d) Long-term liabilities
269. How dividend yield on a stock is similar to the current yield on a bond?
- a) Both represent how much each security's price will increase in a year
 - b) **Both represent the security's annual income divided by its price**
 - c) Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
 - d) Both are quarterly yields that must be annualized
270. Who or what is a person or institution designated by a bond issuer as the official representative of the bondholders?
- a) Indenture
 - b) Debenture
 - c) Bond
 - d) **Bond trustee**

271. The objective of financial management is to maximize _____ wealth.
- a) Stakeholders
 - b) **Shareholders**
 - c) Bondholders
 - d) Directors
272. What are the Indirect securities?
- a) The securities whose value depends on the cash flows generated by the underlying assets
 - b) **The securities whose value depends on the value of the underlying assets**
 - c) The securities that indirectly generate returns for its investors
 - d) All of the given
273. Which of the following is NOT an example of a financial intermediary?
- a) Wisconsin S&L, a savings and loan association
 - b) Strong Capital Appreciation, a mutual fund
 - c) **Microsoft Corporation, a software firm**
 - d) College Credit, a credit union
274. Which of the following refers to the risk associated with interest rate uncertainty?
- a) Default risk premium
 - b) Sovereign Risk Premium
 - c) Market risk premium
 - d) **Maturity risk premium**
275. _____ is equal to (common shareholders' equity/common shares outstanding).
- a) **Book value per share**
 - b) Liquidation value per share
 - c) Market value per share
 - d) None of the above
276. Which of the following cannot be the drawback of using payback period technique of capital budgeting?
- a) It does not account for time value of money
 - b) It neglects cash flows after the payback period
 - c) It does not use interest rate while making calculations
 - d) **It is a tricky and complicated method**
277. Which if the following is (are) true?
- I. The dividend growth model holds if, at some point in time, the dividend growth rate exceeds the stock's required return. II. A decrease in the dividend growth rate will increase a stock's market value, all else the same. III. An increase in the required return on a stock will decrease its market value, all else the same.

- a) I, II, and III
 - b) I only
 - c) **III only**
 - d) II and III only
278. Which group of ratios shows the extent to which the firm is financed with debt?
- a) Liquidity ratios
 - b) **Debt ratios**
 - c) Coverage ratios
 - d) Profitability ratios
279. What is the present value of Rs.8,000 to be paid at the end of three years if interest rate is 11%?
- a) **Rs. 5,850**
 - b) Rs.4,872
 - c) Rs.6,725
 - d) Rs.1,842
280. Which type of responsibilities are primarily assigned to Controller and Treasurer respectively?
- a) Operational; financial management
 - b) Financial management; accounting
 - c) Accounting; financial management
 - d) **Financial management; operations**
281. Nominal Interest Rate is also known as:
- a) Effective interest Rate
 - b) Annual percentage rate
 - c) **Periodic interest rate**
 - d) Required interest rate
282. An annuity due is always worth ____ a comparable annuity.
- a) Less than
 - b) **More than**

- c) Equal to
 - d) Cannot be found from the given information
283. Which of the following refers to bringing the future cash flow to the present time?
- a) Net present value
 - b) **Discounting**
 - c) Opportunity cost
 - d) Internal rate of return
284. Which of the following market in finance is referred to the market for short-term government and corporate debt securities?
- a) **Money market**
 - b) Capital market
 - c) Primary market
 - d) Secondary market
285. Which of the following is NOT true regarding the capital market?
- a) Where long-term funds can be raised
 - b) Money is invested for periods longer than a year
 - c) Where TFCs and NIT are exchanged and traded
 - d) **Where overnight lending & borrowing takes place**
286. What is difference between shares and bonds?
- a) Bonds are representing ownership whereas shares are not
 - b) **Shares are representing ownership whereas bonds are not**
 - c) Shares and bonds both represent equity
 - d) Shares and bond both represent liabilities
287. Which of the following would NOT improve the current ratio?
- a) **Borrow short term to finance additional fixed assets**
 - b) Issue long-term debt to buy inventory
 - c) Sell common stock to reduce current liabilities
 - d) Sell fixed assets to reduce accounts payable
288. When bonds are issued, under which of the following category the value of the bond appears?
- a) Equity
 - b) Fixed assets
 - c) Short term loan
 - d) **Long term loan**
289. How can a company improve (lower) its debt-to-total asset ratio?
- a) By borrowing more
 - b) By shifting short-term to long-term debt
 - c) By shifting long-term to short-term debt

- d) **By selling common stock**
290. A 5-year ordinary annuity has a present value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?
- a) **Rs. 250.44**
 - b) Rs. 231.91
 - c) Rs.181.62
 - d) Rs.184.08
291. A 5-year ordinary annuity has a future value of Rs.1,000. If the interest rate is 8 percent, the amount of each annuity payment is closest to which of the following?
- a) Rs.231.91
 - b) Rs.184.08
 - c) Rs.181.62
 - d) **Rs.170.44**
292. The logic behind _____ is that instead of looking at net cash flows you look at cash inflows and outflows separately for each point in time.
- a) IRR
 - b) **MIRR**
 - c) PV
 - d) NPV
293. Which of the following refers to a highly competitive market where good business ideas are taken up immediately?
- a) Capital market
 - b) **Efficient market**
 - c) Money market
 - d) Real asset market
294. For Company A, plow back ratio is 30%. What will be its Pay-out ratio?
- a) 3.33%
 - b) 30%
 - c) 31%
 - d) **70%**
295. What is a legal agreement, also called the deed of trust, between the corporation issuing bonds and the bondholders that establish the terms of the bond issue?
- a) **Indenture**
 - b) Debenture
 - c) Bond
 - d) Bond trustee
296. MIRR (discount rate) equates which of the following?
- a) **Future value of cash inflows to the present value of cash outflows**
 - b) Future value of cash flows to the present value of cash flows

- c) Future value of all cash flows to zero
 - d) Present value of all cash flows to zero
297. Which of the following needs to be excluded while we calculate the incremental cash flows?
- a) Depreciation
 - b) **Sunk cost**
 - c) Opportunity cost
 - d) Non-cash item
298. Which of the following would generally have unlimited liability?
- a) A limited partner in a partnership
 - b) A shareholder in a corporation
 - c) **The owner of a sole proprietorship**
 - d) A member in a limited liability company (LLC)
299. Which of the following would be considered a cash-flow item from an "investing" activity?
- 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**
300. An investment proposal should be judged in whether or not it provides:
- a) A return equal to the return require by the investor
 - b) A return more than required by investor
 - c) A return less than required by investor
 - d) **A return equal to or more than required by investor**
301. A 5-year annuity due has periodic cash flows of Rs.100 each year. If the interest rate is 8 percent, the future value of this annuity is closest to which of the following equations?
- a) $(Rs.100)(FVIFA \text{ at } 8\% \text{ for } 5 \text{ periods})$
 - b) $(Rs.100)(FVIFA \text{ at } 8\% \text{ for } 4 \text{ periods})(1.08)$
 - c) $(Rs.100) (FVIFA \text{ at } 8\% \text{ for } 5 \text{ periods})(1.08)$
 - d) **$(Rs.100)(FVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$**
302. The RBS pays 5.60%, compounded daily (based on 360 days), on a 9-month certificate of deposit, if you deposit Rs.20, 000 you would expect to earn around _____ in interest.
- a) Rs.840
 - b) **Rs.858**
 - c) Rs.1,032
 - d) Rs.1,121