

THE SOCIETY OF ACCOUNTING EDUCATION
CERTIFIED FINANCIAL & MANAGEMENT ACCOUNTANT MEMBERSHIP PROGRAM

Model Paper for Course: Strategic Financial Management

Course Code: SL-02

Level: Strategic Level

1. If a stock is purchased for \$25 per share and held one year, during which time a \$1.75 dividend is paid and the price climbs to \$29.5, the nominal rate of return is:
 - a) 13%.
 - b) 14%.
 - c) 20%.
 - d) **25%.**

2. An investor receives a 15% total return by purchasing a stock for \$40 and selling it after one year with a 5% capital gain. How much was received in dividend income during the year?
 - a) \$2.00
 - b) \$2.20
 - c) **\$4.00**
 - d) \$6.00

3. How is it possible for real rates of return to increase during times when the rate of inflation increases?
 - a) Inflation increased more than the real return.
 - b) Nominal returns actually decreased.
 - c) **Nominal returns increased more than inflation.**
 - d) Nominal returns increased less than inflation.

4. Market interest rates have risen substantially in the 5 years since an investor purchased Treasury bonds that were offering a 7% return. If the investor sells now he or she is likely to receive:
 - a) Greater than a 7% total return.
 - b) **Less than a 7% total return.**
 - c) A 7% total rate of return.
 - d) A 7% nominal return but less than a 7% real return.

5. In a year in which common stocks offered an average return of 18%, Treasury bonds offered 10% and Treasury bills offered 7%, the risk premium for common stocks was:
 - a) 1%.
 - b) 3%.
 - c) 8%.
 - d) **11%.**

6. In a year in which common stocks offered an average return of 18%, Treasury bonds offered 10% and Treasury bills offered 7%, the maturity risk premium was:
- a) 1%.
 - b) **3%.**
 - c) 8%.
 - d) 11%.
7. What is the approximate variance of returns if over the past 3 years an investment returned 8.0%, -12.0%, and 15.0%?
- a) 31
 - b) **131**
 - c) 182
 - d) 961
8. The standard deviations of individual stocks are generally higher than the standard deviation of the market portfolio because market portfolio:
- a) Offer higher returns.
 - b) Have more systematic risk.
 - c) Have no diversification of risk.
 - d) **Do not have unique risk.**
9. The benefits of portfolio diversification are highest when the individual securities have returns that:
- a) Vary directly with the rest of the portfolio.
 - b) Vary proportionally with the rest of the portfolio.
 - c) **Are less than perfectly correlated with the rest of the portfolio.**
 - d) Are counter cyclical.
10. What is the expected return on a portfolio that will decline in value by 13% in a recession, will increase by 16% in normal times, and will increase by 23% during boom times if each scenario has equal likelihood?
- a) **8.67%**
 - b) 13.00%
 - c) 13.43%
 - d) 17.33%
11. Which of the following risks would be classified as a unique risk for an auto manufacturer?
- a) Interest rates
 - b) **Steel prices**
 - c) Business cycles
 - d) Foreign exchange rates
12. What nominal rate of return is earned by a one-year investor in a bond that was purchased for \$1,000, has an 8% coupon, and was sold for \$960?
- a) -1.89%

- b) 1.92%
 - c) **4%**
 - d) 11.47%
13. What real rate of return is earned by a one-year investor in a bond that was purchased for \$1,000, has an 8% coupon, and was sold for \$960 when the inflation rate was 6%?
- a) **-1.89%**
 - b) 1.92%
 - c) 5.66%
 - d) 11.47%
14. A maturity premium is offered on long-term Treasury bonds due to:
- a) **The risk of changing interest rates.**
 - b) The risk of default.
 - c) Their unique risk.
 - d) Their systematic risk.
15. Which of the following risk types can be diversified by adding stocks to a portfolio?
- a) Systematic risk
 - b) **Unique risk**
 - c) Market risk
 - d) All of these
16. If a security plots below the security market line, it is:
- a) Not rewarding the investor for its unique risk.
 - b) Underpriced, a situation that should be temporary.
 - c) **Offering too little return to justify its risk.**
 - d) A defensive security, which expects to offer lower returns.
17. A stock's beta measures the:
- a) Average return on the stock.
 - b) **Variability in the stock's returns compared to that of the market portfolio.**
 - c) Difference between the return on the stock and return on the market portfolio.
 - d) Market risk premium on the stock.
18. A stock with a beta greater than 1.0 would be termed:
- a) **An aggressive stock, expected to increase more than the market increases.**
 - b) A defensive stock, expected to decrease more than the market increases.
 - c) An aggressive stock, expected to decrease more than the market increases.
 - d) A defensive stock, expected to increase more than the market decreases.
19. What is the beta of a three-stock portfolio including 25% of stock A with a beta of .90, 40% of stock B with a beta of 1.05, and 35% of stock C with a beta of 1.73?
- a) 1.0
 - b) 1.17
 - c) 1.22
 - d) **1.25**

20. If Treasury bills are yielding 10% at a time when the market risk premium is 6%, then the:
- a) Market portfolio should yield 4%.
 - b) Market portfolio should yield 6%.
 - c) **Market portfolio should yield 16%.**
 - d) Market portfolio should yield 22%.
21. Calculate the expected return on stock C given the following information: risk-free rate = 5%, market return = 13%, stock C beta = 1.3.
- a) 8.0%
 - b) 10.4%
 - c) **15.4%**
 - d) 16.9%
22. The company cost of capital:
- a) **Measures what investors want from the company.**
 - b) Depends on current profits and cash flows.
 - c) Is measured using security book values.
 - d) Depends on historical profits and cash flows.
23. Capital structure decisions refer to the:
- a) Dividend yield of the firm's stock.
 - b) **Blend of equity and debt used by the firm.**
 - c) Capital gains available on the firm's stock.
 - d) Maturity date for the firm's securities.
24. What appears to be the targeted debt ratio of a firm that issues \$15 million in bonds and \$35 million in equity to finance its new capital projects?
- a) 15.00%
 - b) **30.00%**
 - c) 35.00%
 - d) 70.00%
25. The weighted-average cost of capital, after tax, for a firm with a 65/35 debt/equity split, 8% cost of debt, 15% cost of equity, and a 35% tax rate would be:
- a) 7.02%.
 - b) **8.63%.**
 - c) 10.80%.
 - d) 13.80%.
26. Why is debt financing said to include a tax shield for the company?
- a) Taxes are reduced by the amount of the debt.
 - b) Taxes are reduced by the amount of the interest.
 - c) Taxable income is reduced by the amount of the debt.
 - d) **Taxable income is reduced by the amount of the interest.**

27. Company X has 2 million shares of common stock outstanding at a book value of \$2.00 per share. The stock trades for \$3.00 per share. It also has \$2 million in face value of debt that trades at 90% of book value. What is its ratio of debt to value for WACC purposes?
- a) 13.9%
 - b) **23.1%**
 - c) 31.0%
 - d) 76.9%
28. What is the after-tax cost of preferred stock that sells for \$10.00 per share and offers a \$1.20 dividend when the tax rate is 35%?
- a) 4.20%
 - b) 7.80%
 - c) 8.33%
 - d) **12.00%**
29. Should a project be accepted if it offers an annual after-tax cash flow of \$1,250,000 indefinitely, costs \$10 million, is riskier than the firm's average projects, and the firm uses a 12.5% WACC?
- a) Yes, since NPV is positive.
 - b) Yes, since a zero NPV indicates marginal acceptability.
 - c) No, since NPV is zero.
 - d) **No, since NPV is negative.**
30. What would you estimate to be the required rate of return for equity investors if a stock sells for \$40.00 and will pay a \$4.40 dividend that is expected to grow at a constant rate of 5%?
- a) 7.6%
 - b) 12.0%
 - c) 12.6%
 - d) **16.0%**
31. What dividend is paid on preferred stock if investors require a 9% rate of return and the stock has a market value of \$54.00 per share and a nominal price of \$50.00 per share?
- a) \$2.92
 - b) \$4.50
 - c) \$4.68
 - d) **\$4.86**
32. If a firm has three times as much equity as debt in its capital structure, then the firm has:
- a) **25.0% debt.**
 - b) 66.7% equity.
 - c) 40.0% debt.
 - d) 33.3% equity.

33. In general, equity is considered a _____ investment than debt, because payments on debt are _____.
- Safer; lower
 - Safer; less certain
 - Riskier; guaranteed by the company**
 - Riskier; guaranteed by the federal government.
34. The process of selecting from alternative long-term investment projects is called:
- Net cash inflow maximization.
 - Capital budgeting.**
 - Discounting cash inflows.
 - Cash flow management.
 - Capital rationing.
35. The time value of money refers to:
- The earning power of an investment or stream of investments over time.**
 - The opportunity cost of capital.
 - The interest rate earned on an investment.
 - The discount rate used to calculate the present value of an investment.
36. The future value of a lump sum payment is worth \$10,000 at the end of 6 years. Suppose that the interest rate is 8 percent compounded semiannually.
- The present value of the \$10,000 is greater if the interest rate is compounded monthly instead of semiannually.
 - The effective annual rate of return is greater than 8 percent.
 - The semiannual interest rate is 4 percent. Which of the following is correct?
 - I only.
 - II only.
 - III only.
 - I and II only.**
 - II and III are correct.
37. Future value may be defined as:
- The discounted value of future cash flows.
 - The interest rate earned on future cash flows.
 - The compounded value of future cash flows.**
 - The opportunity costs of future cash flows.
 - The per period maximization of future cash flows.
38. Present value may be defined as:
- The discounted value of future cash flows.**
 - The interest rate earned on future cash flows.
 - The compounded value of future cash flows.
 - The opportunity costs of future cash flows.
 - The per period maximization of future cash flows.

39. If the interest (discount) rate is positive, then:
- a) The present value of a series of cash flows will be greater than its future value.
 - b) The future value of a series of cash flows will be greater than its present value.**
 - c) The present value of a series of cash flows will equal its future value.
 - d) The present value is only greater than the future value for an annuity.
40. Suppose that Zoe invests \$25,000 into a certificate of deposit that pays 7 percent, compounded annually. How much will Zoe's certificate of deposit be worth in 10 years?
- a) \$47,708.42.
 - b) \$49,178.78.**
 - c) \$50,039.93.
 - d) \$50,241.53.
 - e) \$50,343.82.
41. Suppose the Rue invests \$25,000 into a certificate of deposit that pays 7 percent, compounded quarterly. How much will Rue's certificate of deposit be worth in 10 years?
- a) \$47,708.42.
 - b) \$49,178.78.
 - c) \$50,039.93.**
 - d) \$50,241.53.
 - e) \$50,343.82.
42. Suppose the Zoe invests \$25,000 into a certificate of deposit that pays 7 percent, compounded monthly. How much will Zoe's certificate of deposit be worth in 10 years?
- a) \$47,708.42.
 - b) \$49,178.78.
 - c) \$50,039.93.
 - d) \$50,241.53.**
 - e) \$50,343.82.
43. Suppose the Zoe invests \$25,000 into a certificate of deposit that pays 7 percent, compounded continuously. How much will Zoe's certificate of deposit be worth in 10 years?
- a) \$47,708.42.
 - b) \$49,178.78.
 - c) \$50,039.93.
 - d) \$50,241.53.
 - e) \$50,343.82.**
44. A series of fixed payments that are made fixed intervals for a specified period of time is called:
- a) **An annuity.**
 - b) A cash flow.
 - c) A mutually exclusive payments.
 - d) A payback period.

- e) Compounding.
45. A series of fixed payments that are made fixed intervals at the end of each period is called:
- a) An annuity due.
 - b) **An ordinary annuity.**
 - c) A payback annuity.
 - d) Discounting.
 - e) Compounding.
46. A series of fixed payments that are made fixed intervals at the beginning of each period is called:
- a) **An annuity due.**
 - b) An ordinary annuity.
 - c) A payback annuity.
 - d) Discounting.
 - e) Compounding.
47. Cletus invests \$2,000 annually in an ordinary annuity that pays 9 percent interest compounded annually. The future value of this annuity in 10 years is:
- a) \$28,333.33.
 - b) \$29,672.21.
 - c) **\$30,385.86.**
 - d) \$32,111.11.
 - e) \$33,707.03.
48. Cletus invests \$2,000 annually in an annuity due that pays 9 percent interest compounded annually. The future value of this annuity in 10 years is:
- a) \$28,333.33.
 - b) \$29,672.21.
 - c) \$30,385.86.
 - d) **\$33,120.59.**
 - e) \$33,707.03.
49. Cletus invests \$2,000 annually in an annuity due that pays 9 percent interest compounded quarterly. The future value of this annuity in 10 years is:
- a) \$28,333.33.
 - b) \$29,672.21.
 - c) \$30,385.86.
 - d) \$33,120.59.
 - e) **\$33,707.03.**
50. Suppose that Cletus wants a lump-sum investment today to grow to \$100,000 in 25 years. If Cletus can reasonably expect to earn 8.5 percent compounded annually, then the lump-sum investment should be:
- a) \$11,943.30.

- b) \$12,033.10.
 - c) \$12,212.18.
 - d) \$12,479.49.
 - e) **\$13,009.38.**
51. Suppose that Cletus wants a lump-sum investment today to grow to \$100,000 in 25 years. If Cletus can reasonably expect to earn 8.5 percent compounded semiannually, then the lump-sum investment should be:
- a) \$11,943.30.
 - b) \$12,033.10.
 - c) \$12,212.18.
 - d) **\$12,479.49.**
 - e) \$13,009.38.
52. Suppose that Cletus wants a lump-sum investment today to grow to \$100,000 in 25 years. If Cletus can reasonably expect to earn 8.5 percent compounded quarterly, then the lump-sum investment should be:
- a) \$11,943.30.
 - b) \$12,033.10.
 - c) **\$12,212.18.**
 - d) \$12,479.49.
 - e) \$13,009.38.
53. Suppose that Cummin wants a lump-sum investment today to grow to \$100,000 in 25 years. If Cummin can reasonably expect to earn 8.5 percent compounded monthly, then the lump-sum investment should be:
- a) \$11,943.30.
 - b) **\$12,033.10.**
 - c) \$12,212.18.
 - d) \$12,479.49.
 - e) \$13,009.38.
54. Suppose that Cooper wants a lump-sum investment today to grow to \$100,000 in 25 years. If Cooper can reasonably expect to earn 8.5 percent compounded continuously, then the lump-sum investment should be:
- a) **\$11,943.30.**
 - b) \$12,033.10.
 - c) \$12,212.18.
 - d) \$12,479.49.
 - e) \$13,009.38.
55. Suppose that Carter decides to invest \$4,000 per year into a 25 year annuity due that earns an interest rate of 8.5 percent compounded annually. Calculate the present value of Carter' investment plan?
- a) \$40,936.76.
 - b) \$41,286.75.

- c) \$42,821.33.
 - d) \$42,977.77.
 - e) **\$44,416.39.**
56. Suppose that Cletus decides to invest \$4,000 per year into a 25 year ordinary annuity that earns an interest rate of 8.5 percent compounded annually. Calculate the present value of Cletus' investment plan?
- a) **\$40,936.76.**
 - b) \$41,286.75.
 - c) \$42,821.33.
 - d) \$42,977.77.
 - e) \$44,416.39.
57. Suppose that Cletus has decided to invest in a retirement annuity. Cletus' goal is to have \$1,000,000 in his annuity by the time that he is 65 years old. Cletus is confident of earning a 6 percent interest rate compounded annually. Cletus is currently 30 years old and plans to make his first investment today. How much will Cletus have to invest annually to reach his goal?
- a) \$8,125.32.
 - b) **\$8,465.90.**
 - c) \$8,973.86.
 - d) \$9,026.13.
 - e) None of the above.
58. Suppose that Chloe borrows \$300,000 from the First National State Bank at 2.5 percent interest compounded annually to purchase a new home. Chloe agrees to repay the loan in 30 equal annual installments, with the first payment due at the end of the first year. How much are Chloe's annual payments?
- a) **\$14,333.25.**
 - b) \$15,666.35.
 - c) \$16,777.45.
 - d) \$17,888.55.
 - e) None of the above.
59. The payback period is:
- a) The number cash-flow periods of an capital investment project.
 - b) The number of years that it takes to earn a profit of a capital investment project.
 - c) **The number of periods required to pay for the original investment.**
 - d) The number of periods required to calculate the net present value of an investment project.
60. An advantage of the payback period method of evaluating a capital investment project is that it:
- a) Does not consider the time value of money.
 - b) Ignores cash flows beyond the payback period.
 - c) **Provides a rough approximation of a projects liquidity and risk.**

- d) Provides a rough approximation of the present value of net cash flows.
 e) None of the above.
61. An advantage of the discounted payback period method of evaluating a capital investment project is that it:
- Considers the time value of money.
 - Ignores cash flows beyond the payback period.
 - Provides a rough approximation of a projects liquidity and risk.
 - Provides a rough approximation of the present value of net cash flows.
 - Both A and C are correct.**
62. Suppose that the payback period for a particular project is 5 years and 6 months. If the annual cash inflows are \$5,000, then the initial investment was:
- \$22,500.
 - \$24,000.
 - \$27,500.**
 - \$29,000.
 - None of the above.
63. Two project are independent if:
- Acceptance of one project means rejection of the other.
 - Their cash flows are unrelated.**
 - They have different hurdle rates.
 - They have different discounted payback periods.
64. The cost of capital is:
- The cost of acquiring funds to finance a capital investment project.
 - The minimum rate of return that must be earned to justify a capital investment.
 - The same thing as the required rate of return.
 - Also referred to as the hurdle rate.
 - All of the above statements are true.**
65. Suppose that a project with an initial investment of \$50,000 is expected to generate an annual cash flow of \$4,000 for each of the next 7 years. This project should not be accepted if the cost of capital is:
- 8 percent.
 - 9 percent.
 - 10 percent.
 - 11 percent.
 - Both C and D are correct.**
66. Suppose that a project with an initial investment of \$30,000 has the following annual cash inflows:
- | Year | 1 | 2 | 3 | 4 | 5 |
|-------------|---------|---------|---------|----------|---------|
| Cash inflow | \$4,000 | \$3,500 | \$8,000 | \$12,000 | \$8,000 |
- If the cost of capital is 8 percent, then the net present value of the project:
- \$3,506.37—the project should be rejected.**

- b) -\$4,708.42—the project should be rejected.
- c) \$3,506.37—the project should be accepted.
- d) \$4,708.42—the project should be accepted.
- e) None of the above statements are true.

67. The internal rate of return (IRR) is:

- a) The same thing as the discount rate.
- b) The same thing as the cost of capital.
- c) **The discount rate that equates the present values of inflows and outflows.**
- d) The same thing as the net present value.
- e) The ratio of average annual profits to average investments.

68. Project A and Project B are mutually exclusive. Project A has an IRR of 10 percent. Project B has an IRR of 12 percent. If the marginal cost of capital is 11 percent, then:

- a) Project A should be accepted and Project B rejected.
- b) **Project B should be accepted and Project A rejected.**
- c) Both projects should be accepted since the decision is not based on the IRR but the NPV.
- d) Both projects should be rejected since the decision is not based on the IRR but the NPV.

69. Project A and Project B are independent. Project A has an IRR of 12 percent. Project B has an IRR of 14 percent. If the marginal cost of capital is 10 percent, then:

- a) Project A must have a higher NPV than Project B.
- b) Project B must have a higher NPV than Project A.
- c) The NPV of both projects must be negative.
- d) **The NPV of both projects is positive.**

70. Suppose that a firm is considering several mutually exclusive projects. The firm should choose:

- a) **The project with the highest NPV.**
- b) The project with the lowest NPV.
- c) All projects with a positive NPV.
- d) The project with the lowest IRR.
- e) The project with the lowest cost of capital.

71. Suppose that a project with an initial investment of \$30,000 has the following annual cash inflows:

Year	1	2	3	4	5
Cash inflow	\$4,000	\$3,500	\$8,000	\$12,000	\$8,000

Using a financial calculator, the IRR for this project is:

- a) 4.17 percent.
- b) 4.71 percent.
- c) **5.04 percent.**
- d) None of the above.

72. Suppose that a firm is considering to independent projects. The crossover rate is:
- The IRR at which the NPV of the two projects are equal.
 - The cost of capital at which the NPV of the two projects are equal.**
 - Is the discount rate at which the NPV of the two projects are equal.
 - Is the discount rate at which the discounted payback period of the two projects are equal.

TABLE 1: Net Cash Flows for Projects Amber and Jade

Year (t)	Project Amber	Project Jade
0	-\$3,000	-\$4,000
1	1,000	1,750
2	1,000	1,500
3	2,500	2,000

73. Consider the information presented in Table 1. If the discount rate is 9 percent, the NPV of Project Amber is:
- \$412.39.
 - \$598.78.
 - \$689.57.**
 - \$724.44.
 - None of the above.
74. Consider the information presented in Table 1. If the discount rate is 9 percent, the NPV of Project Jade is:
- \$412.39.**
 - \$598.78.
 - \$689.57.
 - \$724.44.
 - None of the above.
75. Consider the information presented in Table 1. Suppose that Projects Amber and Jade are mutually exclusive. If the discount rate is 9 percent, then:
- Project Jade is preferred to Project Amber.
 - Project Amber is preferred to Project Jade.**
 - Project Amber is equivalent to Project Jade.
 - Both projects will be chosen since the NPV is positive.
 - Neither projects will be chosen since they are mutually exclusive.
76. Consider the information in Table 1. The IRR for Project Amber is:
- 10.17 percent.
 - 12.47 percent.
 - 14.57 percent.
 - 19.54 percent.**

e) None of the above.

77. Consider the information in Table 1. The IRR for Project Jade is:

- a) 10.17 percent.
- b) 12.47 percent.
- c) **14.57 percent.**
- d) 19.54 percent.
- e) None of the above.

78. When the cost of capital is less than IRR for two mutually exclusive projects, then:

- a) **The NPV and IRR methods will always result in the same accept and reject decisions.**
- b) The NPV method will lead to an accept decision while the IRR method will lead to a reject decision.
- c) The IRR method will lead to an accept decision while the NPV method will lead to a reject decision.
- d) The project with the highest IRR should be chosen.
- e) Both A and E are correct.

79. Cyborg Electronics is considering two mutually exclusive capital investment projects. Project A has an IRR of 10 percent. Project B has an IRR of 12 percent. The crossover rate is 8 percent. Cyborg should:

- I. Invest in both projects if the cost of capital is less than 10 percent.
- II. Invest in Project A if the cost of capital is less than 8 percent.
- III. Invest in Project B if the cost of capital is greater than 8 percent but less than 12 percent.
- IV. Invest in Project A if the cost of capital is greater than 8 percent but less than 10 percent.

Which of the following is correct?

- a) I only.
- b) II only.
- c) III only.
- d) **II and III only.**
- e) II and IV only.

80. Cyborg Electronics is considering two independent capital investment projects. Project A has an IRR of 10 percent. Project B has an IRR of 12 percent. The crossover rate is 8 percent. Cyborg should:

- I. Invest in both projects if the cost of capital is less than 10 percent.
- II. Invest in Project A if the cost of capital is less than 8 percent.
- III. Invest in Project B if the cost of capital is greater than 8 percent but less than 12 percent.
- IV. Invest in Project A if the cost of capital is greater than 8 percent but less than 10 percent.

Which of the following is correct?

- a) I only.
- b) II only.
- c) III only.
- d) I and III only.
- e) **I, II, III and IV.**

81. Which of the following statements about the modified internal rate of return (MIRR) is correct?
- a) **The assumption regarding reinvestment underlying the MIRR method is more reasonable than that underlying the IRR method.**
 - b) The selection of a capital investment project using the MIRR method is always consistent with that of the IRR method
 - c) The MIRR method always overcomes the problems associated with multiple IRR.
 - d) All of the above are correct.
 - e) None of the Above
82. The cost of debt capital is:
- a) The interest rate that must be paid on the debt.
 - b) **The after-tax interest rate that must be paid on the debt.**
 - c) The future value of the debt less principal.
 - d) The equivalent rate of return on the company's equity.
 - e) The required rate of return on a company's stock.
83. The optimal capital structure of a firm:
- a) Minimizes the firm's cost of debt capital.
 - b) **Is that combination of debt, preferred and common stock that maximizes the firm's share values**
 - c) Is one in which the weighted cost of capital is less than the IRR.
 - d) All of the above are correct.
 - e) None of the above is correct.
84. The variance of an investment's returns is a measure of the:
- a) **Volatility of the rates of return.**
 - b) Probability of a negative return.
 - c) Historic return over long periods.
 - d) Average value of the investment.
85. When calculating a project's annual cash flows, which of the following is not directly included?
- a) The reduction in taxes attributable to sale of an asset for less than its book value
 - b) The tax incurred when the trade-in value of the old asset exceeds its book value
 - c) The reduction in taxes attributable to depreciation charges
 - d) **Depreciation expense**
86. The basic characteristics of relevant project flows include all of the following except
- a) After-tax flows.
 - b) Cash flows.
 - c) Incremental flows.
 - d) **Financing flows.**
87. Project GROW will require \$250,000 to purchase new machinery. Capitalized expenditures total \$40,000. The new machine will require that the firm purchase some

additional inventory which will result in an increase in net working capital of \$50,000. What is the initial cash outflow?

- a) \$300,000
- b) \$350,000
- c) \$270,000
- d) **None of the above are correct.**

88. In analyzing a long-term investment proposal:

- a) **Include opportunity costs.**
- b) Include before-tax interest payments.
- c) Include after-tax interest payments.
- d) Include sunk costs.

89. The Pink Lounge is considering replacing its lighting system. The new lights will cost \$16,000 and can be installed for \$2,500. The old light fixtures were depreciated to zero but can be sold to Secondhand Sam for \$1,000. If the Pink Pussycat has a 35 percent tax rate, the initial cash outflow for the new lighting system is

- a) \$18,500.
- b) \$16,000.
- c) \$17,500.
- d) **\$17,850.**

90. A company is considering a project costing \$50,000. The hurdle rate is 9 percent and the project is expected to yield an ordinary annuity for 10 years. The annual annuity must be at least _____ for the project to be accepted.

- a) \$9,231
- b) \$8,321
- c) \$8,667
- d) **\$7,791**

91. Your firm is considering two mutually exclusive projects, code-named A and B, that would each require an initial cash outflow of \$10,000. They would generate the following incremental, after-tax, operating cash flows:

	Project A	Project B
Year 1	\$5,000	\$3,000
Year 2	\$4,000	\$4,000
Year 3	\$3,000	\$6,000

If the firm's required rate of return is 14 percent, which would you select?

- a) **Neither project because neither adds value to the firm.**
- b) Project A because it has the higher net present value.
- c) Project B because it has the higher internal rate of return.
- d) Project A because it has the shorter payback period.

92. A proposed investment project requires an initial cash outflow of \$82,650 and has an economic life of three years, with no salvage value. It is expected to generate before tax

cash flows of \$45,000 for each of the three years. The firm's tax rate is 30 percent. Which of the following is closest to the project's internal rate of return?

- a) 30 percent
 - b) **7 percent**
 - c) 40 percent
 - d) 12 percent
93. The initial cost of a conventional project is \$14,000. The present value of the project's cash inflows, discounted at 12 percent, is \$12,500. The internal rate of return is
- a) **Less than 12 percent.**
 - b) Greater than 12 percent.
 - c) Equal to 12 percent.
 - d) Cannot tell without additional information
94. Hi Lighter, Inc., is considering a project with an initial investment of \$25,000 that generates cash-inflows of \$10,000 per year for 8 years starting today. What is the net present value of this project if the firm requires a 15% rate of return on this project? (Choose the nearest figure.)
- a) \$22,854
 - b) **\$19,873**
 - c) \$1,152
 - d) \$55,000
95. The employment of fixed costs associated with the actual production of goods or services is known as:
- a) Financial leverage
 - b) Volume discounting
 - c) **Operating leverage**
 - d) Covariance
96. Which of the following is a planning tool?
- a) **A budget**
 - b) A balance sheet
 - c) An income statement
 - d) A Cash flow statement
97. Which of the following would lower a firm's operating break-even point?
- a) An increase in the cost of goods sold
 - b) **An increase in selling price**
 - c) An increase in wages paid to employees
 - d) An increase in total sales
98. Suppose you have a 2-stocks portfolio, which consists of Stock A and Stock B. If stock A has a beta value of 1.8 and stock B has a beta value of 0.68, and your investment in stock A and stocks B is equal, then the beta of this 2-stock portfolio would be equal to:
- a) 1.20

- b) **1.24**
 - c) 1.30
 - d) 1.45
99. Which of the following is a disadvantage of Capital Asset Pricing model?
- a) It consider market risk
 - b) It can be used for listed companies
 - c) It can be used for Non-listed companies
 - d) **It is based on Past data**
100. Which of the following statements applies to Dividend Growth Model?
- a) It is difficult to understand and use
 - b) It is used for non-listed companies
 - c) It is used for debt securities also
 - d) **It do not consider risk level of a security**
101. Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal?
- a) Its price will rise
 - b) Its price will remain unchanged
 - c) **Its price will fall.**
 - d) Cannot be determined
102. A company has fixed costs of \$50,000 and variable costs per unit of output of \$8. If its sole product sells for \$18, what is the break-even quantity of output?
- a) 2,500
 - b) **5,000**
 - c) 1,500
 - d) 7,500
103. Which of the following is included in the cost of capital of a firm?
- a) Cost of sales
 - b) Depreciation cost
 - c) Depletion cost
 - d) **Cost of retained earnings**
104. Holmes Aircraft recently announced an increase in its net income, yet its net cash flow declined relative to last year. Which of the following could explain this performance?
- a) The company's taxes increased.
 - b) **The company's depreciation expense declined.**
 - c) The company's operating income declined.
 - d) All of the given statements are correct.
105. A market portfolio has a beta equal to:
- a) 0

- b) **1**
 - c) 2
 - d) 3
106. A Levered firm has a lower weighted average cost of capital as compare to an Unlevered firm because of:
- a) **Interest tax shield**
 - b) Low level of financial risk
 - c) Low level of business risk
 - d) Low level of systematic risk
107. A dividend payment made in the form of additional shares, rather than a cash payout is known as:
- a) **Stock Dividend**
 - b) Cum Dividend
 - c) Ex Dividend
 - d) Extra Dividend
108. Which of the following method can be used to forecast the sales of a firm?
- a) Price – earning ratio
 - b) Cash flow estimation
 - c) **Financial Analysis**
 - d) Regression Analysis
109. Dividend discount Model states that today's price of a stock is equal to:
- a) **The Present Value of all future dividends of the stock**
 - b) The Present Value of the face value of the stock
 - c) The Present Value of the Sales price of the stock
 - d) The Present Value of the book value of the stock
110. The decision rule for net present value is to:
- a) Accept all projects with cash inflows exceeding initial cost.
 - b) Reject all projects with rates of return exceeding the opportunity cost of capital.
 - c) **Accept all projects with positive net present values.**
 - d) Reject all projects lasting longer than 10 years.
111. Which of the following capital budgeting technique ignores profitability and time value of money?
- a) Net Present Value
 - b) Internal Rate of Return
 - c) Discounted Pay Back period
 - d) **Simple Pay Back Period**
112. 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**
113. In the formula $rE = (D1/P0) + g$, what does the symbol "g" represent?
- a) The expected price appreciation yield from a common stock.
 - b) **The expected dividend yield from a common stock.**
 - c) The dividend yield from a preferred stock.
 - d) The interest payment from a bond.
114. Which of the following is an objective of an optimal capital structure?
- a) To minimize the cost of capital
 - b) To minimize cost of equity
 - c) **To minimize cost of debt**
 - d) To minimize cost of sales
115. If sensitivity analysis concludes that the largest impact on profits would come from changes in the sales level, then which of the following recommendations should be considered?
- a) Fixed costs should be traded for variable costs
 - b) Variable costs should be traded for fixed costs.
 - c) The project should not be undertaken.
 - d) **Additional marketing analysis may be beneficial before proceeding.**
116. Suppose you wish to set aside Rs.2,000 at the end of each of the next 10 years in an account paying 12 percent compounded annually. You accumulate at the end of 10 years an amount closest to:
- a) Rs.22,456
 - b) **Rs.35,098**
 - c) Rs.28,324.
 - d) Rs.20,324
117. Which of the following investment criteria does not take the time value of money into consideration?
- a) **Simple payback method**
 - b) Net present value
 - c) Profitability index
 - d) Internal rate of return for borrowing projects
118. Which of the following would be consistent with a more aggressive (i.e., a high risk profitability) approach to financing working capital?
- a) Financing permanent inventory buildup with long-term funds.
 - b) **Financing seasonal needs with short-term funds.**
 - c) Financing short-term needs with short-term funds.
 - d) Financing some long-term needs with short-term funds

119. If a creditor wanted to know if a potential customer paid its bills on time, the creditor could look at the potential customer's:
- Current ratio.
 - Acid ratio.
 - Average age of accounts payable.**
 - Average age of accounts receivable
120. Which of the following best illustrates the problem imposed by capital rationing?
- Accepting projects with the highest NPVs first**
 - Accepting projects with the highest IRRs first
 - Bypassing projects that have positive NPVs
 - Bypassing projects that have positive IRRs
121. Present value of Rs.5, 000 received at the end of 5 years, discounted at 10 percent, is closest to:
- Rs.3, 105.**
 - Rs.823.
 - Rs.620.
 - Rs.3, 403.
122. Which of the following statement best describe the term Market Correction?
- Market Correction refers to the situation where equilibrium of supply & demand of shares occurs in the market**
 - Market correction occurs when shares' intrinsic values becomes equal to face values
 - Market Correction occurs when there is a boom in the economy
 - Market Correction occurs when inflation rate is above the market interest rate
123. Which of the following is the average time period between buying inventory and receiving cash proceeds from its eventual sale?
- Operating Cycle**
 - Cash Cycle
 - Inventory period
 - Inventory Turnover
124. Current assets of company exceed its current liabilities, then the company will have:
- A positive net working capital**
 - A negative working capital
 - A net working capital of less than zero
 - A net working capital equal to zero
125. Which one of the following is a major limitation of Linear Programming Technique of capital projects selection?
- Ignores the relative size of the Investment**
 - Time value of money is not considered

- c) Project cash flows are ignored
 - d) Project profitability is ignored
126. Which of the following is tax deductible?
- a) Dividend on preferred shares
 - b) Dividend on common stocks
 - c) Coupon payments on bonds
 - d) **Capital gain on common stocks**
127. Which of the following 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 given options
128. Which of the following statements is TRUE regarding Profitability Index?
- a) It ignores time value of money
 - b) It ignores future cash flows
 - c) **It ignores the scale of investment**
 - d) It ignores return on investment
129. Which of the following is a tool that identifies the strengths, weaknesses, opportunities and threats of an organization?
- a) **SWOT Analysis**
 - b) Trend Analysis
 - c) Fundamental Analysis
 - d) Technical Analysis
130. Which of the following statements applies to intrinsic value of a security?
- a) **Intrinsic value of a security always exceeds its book value.**
 - b) Intrinsic value of a security rises when the liquidation value falls.
 - c) Intrinsic value of a security is the price around which its market value should closely fluctuate.
 - d) Intrinsic value of a security is its closing market value when it is actively traded.
131. A Company's common stock is currently selling at Rs.3.00 per share, its quarterly dividend is Rs.0.07, and the stock is expected to rise to Rs.3.30 in a year. What is its expected rate of return?
- a) 9.3%
 - b) 19.3%
 - c) **10.0%**
 - d) 11.0%
132. For a firm with a Degree of Operating Leverage of 3.5, an increase in sales of 6% will:

- a) Increase pre-tax profits by 3.5%
 - b) Decrease pre-tax profits by 3.5%.
 - c) **Increase pre-tax profits by 21.0%.**
 - d) Increase pre-tax profits by 1.71%.
133. Which of the following best illustrates the problem imposed by capital rationing?
- a) **Accepting projects with the highest NPVs first**
 - b) Accepting projects with the highest IRRs first
 - c) By passing projects that have positive NPVs
 - d) Bypassing projects that have positive IRRs
134. A project would be financially feasible in which of the following situations?
- a) If Internal Rate of Return of a project is greater than zero
 - b) If Net Present Value of a project is less than zero
 - c) If the project has Profitability Index less than one
 - d) **If the project has Profitability Index greater than one**
135. Suppose a stock is selling today for Rs.35 per share. At the end of the year, it pays a dividend of Rs.2.00 per share and sells for Rs.39.00. What is the dividend yield on this stock?
- a) 2%
 - b) 3%
 - c) 4%
 - d) **5%**
136. Which of the following is considered as a risk free financial asset?
- a) **Government T-bills**
 - b) Junk bonds
 - c) Preferred stock
 - d) Secured bonds
137. Which of the following is a necessary condition for issuing shares through Initial Public Offerings (IPO's)?
- a) The firm must have a stable dividend policy
 - b) The firm must have a low cost of capital
 - c) The firm must have a low level of debt
 - d) **The firm must be listed on the stock exchange**
138. Which one of the following statements applies to Dividend Growth Model?
- a) It is difficult to understand and use
 - b) It is used for non-listed companies
 - c) It is used for debt securities also
 - d) **It do not consider risk level of a security**
139. Which of the following *best* define the term 'Capital Structure'?
- a) The proportion of equity used by a firm

- b) **The proportion of debt and equity capital used by a firm**
 - c) The proportion of long-term liabilities used by a firm
 - d) The proportion of short-term bank loan used by a firm
140. A Pure Play method of selecting a discount rate is most suitable in which of the following situations?
- a) When the intended investment project has a Non-conventional stream of cash flows
 - b) When the intended investment project is a replacement project
 - c) **When the intended investment project belongs to industry other than the firms operating in**
 - d) When the intended investment project has a conventional stream of cash flows
141. Which of the following is a dividend that is paid in the form of additional shares, rather than a cash payout?
- a) **Stock Dividend**
 - b) Cum Dividend
 - c) Ex Dividend
 - d) Extra Dividend
142. Which of the following is a proposition of Miller and Modigliani theory of Capital structure?
- a) **Value of a firm is independent of its capital structure**
 - b) Value of a firm is independent of its level of debt
 - c) Value of a firm is dependent of its cost of capital
 - d) Value of a firm is independent on its level of equity finances
143. Which of the following transactions would occur in a primary financial market?
- a) **Initial public offering**
 - b) Buying mutual funds certificates
 - c) Selling old shares
 - d) Buying bonds issued in previous year
144. What will be the effect of reduction in the cost of capital on the accounting break-even level of revenues?
- a) It raises the break-even level.
 - b) It reduces the break-even level.
 - c) **It has no effect on the break-even level.**
 - d) This cannot be determined without knowing the length of the investment horizon.
145. Which of the following statements is TRUE regarding Balance Sheet of a firm?
- a) It reports how much of the firm's earnings were retained in the business rather than paid out in dividends.
 - b) It reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period.
 - c) **It shows the firm's financial position at a specific point in time.**

- d) It summarizes the firm's revenues and expenses over an accounting period.
146. All of the following are the disadvantages of a Corporate form of an organization EXCEPT:
- a) Double taxation
 - b) Limited liability
 - c) **Legal restrictions**
 - d) None of the given options
147. Which of the following would be a consequence of a high Inventory Turnover Ratio?
- a) Low level of inventory and frequent stock-outs
 - b) Seasonal elements peculiar to the business
 - c) **Efficient inventory management**
 - d) Any of the given option
148. Suppose you invested Rs. 8,000 in a savings account paying 5 percent interest a year, compounded annually. How much amount your account will have at the end the end of four years?
- a) Rs.10,208
 - b) **Rs.9,728**
 - c) Rs.10,880
 - d) Rs.9,624
149. Which of the following is the main source of income for the buyer of a zero-coupon bond?
- a) Price appreciation
 - b) A rate of return equal to zero over the life of the bond
 - c) Variable dividends instead of a fixed interest payment annually
 - d) **All interest payments in one lump sum at maturity**
150. Which of the following techniques of stock evaluation considers quantitative factors as well as qualitative factors for valuation?
- a) Technical Analysis
 - b) **Fundamental Analysis**
 - c) Constant Growth Model
 - d) No Growth Model
151. Which of the following statements is CORRECT regarding the fundamental analysis?
- a) Fundamental analysts use only Economic indicators to evaluate a stock
 - b) Fundamental analysts use only financial information to evaluate a company's stocks
 - c) **Fundamental analysts use financial and non-financial information to evaluate a company's stocks**

- d) Fundamental analysts use only non-financial information to evaluate a company's stocks
152. Which of the following could be used to calculate the cost of common equity?
- a) Interpolation method
 - b) Dividend discount model
 - c) YTM (Yield-to-Maturity) method
 - d) **Capital structure valuation**
153. Which of the following is a long-term source of financing for a firm?
- a) **Corporate bonds**
 - b) Money market instruments
 - c) Trade credit
 - d) Accounts payables
154. Since the capital budgeting techniques use cash flows instead of accounting flows, therefore, the financial manager must add back which one of the following to the analysis?
- a) The cost of fixed assets
 - b) The cost of accounts payable
 - c) Investments
 - d) **Depreciation**
155. Which of the following statements is correct for a project with a positive Net Present Value (NPV)?
- a) **Internal rate of return (IRR) exceeds the cost of capital**
 - b) Accepting the project has an indeterminate effect on shareholders
 - c) The discount rate exceeds the cost of capital
 - d) The profitability index equals one
156. Which of the following is the last step in the financial planning process ?
- a) Providing feedback
 - b) Taking corrective measures
 - c) **Implementing the plan**
 - d) Controlling
157. A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?
- a) 14%
 - b) **13%**
 - c) 12%
 - d) 10%
158. Which of the following methods would be most suitable for calculating the return on stocks of a non-listed company?
- a) **Dividend Growth model**

- b) Capital Asset Pricing Model
 - c) Security Market Line
 - d) Characteristics line
159. Which of the following statements is true regarding Weighted Average Cost of Capital (WACC)?
- a) WACC of a levered firm is greater than that of an un-levered firm
 - b) WACC of a levered firm is lesser than that of an un-levered firm
 - c) **WACC of a levered firm is equal to that of an un-levered firm**
 - d) An Un-levered firm has zero WACC
160. An un-gearred beta refers to the beta of a firm with:
- a) 100% Debt financed
 - b) 100% Equity financed
 - c) 50% Equity and 50% Debt financed
 - d) **60% Equity and 40% Debt financed**
161. With respect to a Cash flow statement, which of the following would be considered as a cash inflow?
- a) **Increase in current assets**
 - b) Decrease in current liability
 - c) Increase in current liability
 - d) Cannot be determined
162. If you deposit \$12,000 per year for 16 years (each deposit is made at the beginning of each year) in an account that pays an annual interest rate of 15%, what will your account be worth at the end of 16 years?
- a) \$82,168.44
 - b) \$71,450.82
 - c) \$768,901.12
 - d) **\$668,609.67**
163. Which of the following investment criteria does not take the time value of money into consideration?
- a) **Simple payback method**
 - b) Net present value
 - c) Profitability index
 - d) Internal rate of return for borrowing projects
164. Which of the following is the Dividend Payout ratio for a common stock?
- a) Dividend per share: Market value per share
 - b) Earning per share: Intrinsic value per share
 - c) **Dividend per share: Earning per share**
 - d) Market value per share: intrinsic value per share

165. Cash discounts are offered by the seller to buyer in order to improve which of the following?
- a) **Operating cycle**
 - b) Sales turnover
 - c) Company goodwill
 - d) Credit worthiness
166. Average beta has value equal to:
- a) **1**
 - b) 2
 - c) 3
 - d) 4
167. Which of the following may be a major reason for hard capital rationing?
- a) Dilution of earning per share (EPS)
 - b) High interest expense
 - c) **High interest rate**
 - d) Company own policies
168. In inventory management, the storage cost of inventory is considered as:
- a) **Carrying cost**
 - b) Reorder cost
 - c) Stock out cost
 - d) Safety cost
169. Which of the following statement is TRUE regarding temporary working capital?
- a) **Temporary working capital varies with seasonal requirements**
 - b) Temporary working capital is the constant component of working capital
 - c) Temporary working capital excludes inventories
 - d) Temporary working capital should be financed with bonds or common stock
170. Which of the following describes the hedging approach to financing?
- a) Maturity dates of financing instruments are spread over a period of time so that they mature in a steady, predictable fashion
 - b) **Each asset is offset with a financing instrument of the same approximate maturity**
 - c) Each asset is offset with a put or call option.
 - d) The firm takes out insurance to protect itself against uneven cash flows.
171. 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 Internal Rate of Return**
 - 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 given options

172. Which of the following measures systematic risk of a firm's common stock?
- a) **Beta**
 - b) CAPM
 - c) MM-Model
 - d) SML
173. Which of the following is closely related to a sales budget?
- a) **Miscellaneous income**
 - b) Future profits
 - c) Cash outflow
 - d) Cash inflow
174. Which of the following is the correct definition for "spread" in cash management?
- a) The difference between optimal cash balance and Nominal Cash balance
 - b) The difference between opening cash balance and ending cash balance.
 - c) **The difference between upper limit and lower limit of cash balances**
 - d) The difference between optimal cash balance and ending cash balance
175. Which of the following statement is CORRECT regarding residual dividend policy?
- a) Shareholders are paid dividend from capital
 - b) **Dividend are paid after meeting all the financial needs of the firm**
 - c) The management sets a fixed payout ratio
 - d) Shareholders are paid fixed dividend every year
176. Since companies in some industries typically have high fixed costs, but have stable and predictable revenues. Which of the following statement would be TRUE about these companies?
- a) Their degree of operating leverage is relatively low.
 - b) Their bond issues would tend to have a speculative rating.
 - c) **Their overall business risk is relatively low.**
 - d) They are unable to take on much additional financial risk.
177. Which of the following changes will occur if a bond's yield-to-maturity increases, keeping other things equal ?
- a) Its price will rise
 - b) Its price will remain unchanged
 - c) **Its price will fall**
 - d) Cannot be determined
178. Since preferred stock dividends are fixed, valuing preferred stock is roughly equivalent to valuing:
- a) **A zero growth common stock.**
 - b) A positive growth common stock
 - c) A short-term bond

- d) An option.
179. Which one of the following statements is TRUE regarding future value of a single sum?
- a) **Increase if the interest rate increases.**
 - b) Remains unchanged if the interest rate changes
 - c) Decrease if the interest rate increases
 - d) All of the given options
180. All of the following are the methods to evaluate the credit worthiness in business EXCEPT:
- a) Market reputation
 - b) Previous payment record
 - c) **Production plant capacity**
 - d) Financial strength
181. What is the main purpose of constructing a portfolio of financial assets?
- a) To maximize risk and minimize the return
 - b) To minimize the risk and minimize the return
 - c) **To maximize the return and minimize the risk**
 - d) To minimize the return and minimize the risk
182. Inventory between various stages of production is known as:
- a) Work in Process inventory
 - b) Finished goods inventory
 - c) Balanced goods inventory
 - d) **Raw materials inventory**
183. Which of the following effects should be considered by a firm if it allows credit to its customers?
- a) Cost of discount
 - b) Arrange loans to finance short term operations
 - c) Prices of goods
 - d) **All of the given options**
184. Which of the following is most relevant to a company's ability to pay off its short-term obligation?
- a) Dividend Policy
 - b) **Net working capital**
 - c) Operating Cycle
 - d) Profitability
185. Which of the following is prepared by combining all the functional budgets?
- a) A production budget
 - b) A cash budget
 - c) A sales budget

- d) **A master budget**
186. Which of the following should be ignored, while evaluating the financial viability of a project?
- a) Initial cost
 - b) Equipment cost
 - c) Cost of capital
 - d) **Sunk cost**
187. A company has a dividend yield of 8%. If its dividend is expected to grow at a constant rate of 5%, what must be the expected rate of return on the company's stock?
- a) 14%
 - b) **13%**
 - c) 12%
 - d) 10%
188. Determine a firm's total asset turnover (TAT) if its net profit margin (NPM) is 5 percent, total assets are \$8 million, and ROI is 8 percent.
- a) **1.60**
 - b) 2.05
 - c) 2.50
 - d) 4.00
189. Which of the following condition if exist will make the diversification more effective?
- a) Securities contained in a portfolio are positively correlated
 - b) **Securities contained in a portfolio are negatively correlated**
 - c) Securities contained in a portfolio have high market values
 - d) Securities contained in a portfolio have low market values
190. Which one of the following is a major limitation of Linear Programming Technique of capital projects selection?
- a) **Ignores the relative size of the Investment**
 - b) Time value of money is not considered
 - c) Project cash flows are ignored
 - d) Project profitability is ignored
191. Holding everything else constant, increasing fixed costs _____ the firm's break-even point.
- a) Decreases
 - b) Increases the covariance of
 - c) **Increases**
 - d) Does not affect
192. The objective of financial management is to maximize _____ wealth.
- a) Stakeholders

- b) **Shareholders**
 - c) Bondholders
 - d) Directors
193. 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
194. 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
195. 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**
196. _____ 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
197. 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**
198. 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
199. 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
200. 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
201. 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**
202. Nominal Interest Rate is also known as:
- a) Effective interest Rate
- b) Annual percentage rate
- c) **Periodic interest rate**
- d) Required interest rate
203. 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

204. 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
205. 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
206. 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**
207. 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
208. 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
209. 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**
210. 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**

211. 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
212. 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**
213. 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
214. 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
215. For Company A, plow back ratio is 30%. What will be its Pay-out ratio?
- a) 3.33%
 - b) 30%
 - c) 31%
 - d) **70%**
216. 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
217. 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

218. 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
219. 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)
220. 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**
221. 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**
222. 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) **$(Rs.100)(FVIFA \text{ at } 8\% \text{ for } 4 \text{ periods}) + Rs.100$**
223. 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

224. 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?
- (Rs.100)(FVIFA at 8% for 5 periods)
 - (Rs.100)(FVIFA at 8% for 4 periods)(1.08)
 - (Rs.100) (FVIFA at 8% for 5 periods)(1.08)**
 - (Rs.100)(FVIFA at 8% for 4 periods) + Rs.100
225. If a firm has a DOL of 5 at Q units, what would be the effect on sales and EBIT?
- If sales rise by 5%, EBIT will rise by 5%
 - If sales rise by 1%, EBIT will rise by 1%
 - If sales rise by 5%, EBIT will fall by 25%
 - If sales rise by 1%, EBIT will rise by 5%**
226. Which of the following statistic measures the returns of two risky assets that move together?
- Correlation**
 - Standard deviation
 - Square root
 - Variance
227. Which of the following costs would be considered a fixed cost?
- Raw materials
 - Depreciation**
 - Bad-debt losses
 - Production labor
228. Expected Portfolio Return = _____.
- $rP^* = xA rA + xB rB$**
 - $rP^* = xA rA - xB rB$
 - $rP^* = xA rA / xB rB$
 - $rP^* = xA rA * xB rB$
229. Why markets and market returns fluctuate?
- Because of political factors
 - Because of social factors
 - Because of socio-political factors
 - Because of macro systematic factors**
230. Which of the following can be used to calculate the risk of the larger portfolio?
- Standard deviation
 - EPS approach
 - Matrix approach**
 - Gordon's Approach

231. 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
232. 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
233. Which of the following is correct regarding the opportunity cost of capital for a project?
- a) The opportunity cost of capital is the return that investors give up by investing in the project rather than in securities of equivalent risk.
 - b) Financial managers use the capital asset pricing model to estimate the opportunity cost of capital
 - c) The company cost of capital is the expected rate of return demanded by investors in a company
 - d) **All of the given options**
234. Which of the following is the stability of a firm's operating income?
- a) Financial leverage
 - b) Weighted-average cost of capital
 - c) Capital structure
 - d) **Business risk**
235. Which of the following is the cash required during a specific period to meet interest expenses and principal payments?
- a) Debt capacity
 - b) **Debt-service burden**
 - c) Adequacy capacity
 - d) Fixed-charge burden
236. How economic value is added (EVA) calculated?
- a) It is the difference between the market value of the firm and the book value of equity
 - b) **It is the firm's net operating profit after tax (NOPAT) less a dollar cost of capital charge**
 - c) It is the net income of the firm less a dollar cost that equals WAAC multiplied by the book value of liabilities and equities
 - d) None of the given option
237. 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
238. 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
239. The statement of cash flows reports a firm's cash flows segregated into which of the following categorical order?
- a) **Operating, investing, and financing**
 - b) Investing, operating, and financing
 - c) Financing, operating and investing
 - d) Financing, investing, and operating
240. Which of the following formula relates beta of the stock to the standard deviation?
- a) Covariance of stock with market * variance of the market
 - b) **Covariance of stock with market / variance of the market**
 - c) Variance of the market / Covariance of stock with market
 - d) Slope of the regression line
241. Which of the following is the maximum amount of debt (and other fixed-charge financing) that a firm can adequately service?
- a) **Debt capacity**
 - b) Debt-service burden
 - c) Adequacy capacity
 - d) Fixed-charge burden
242. What is the easiest method to diversify away firm-specific risks?
- a) To buy stocks with a beta of 1.0
 - b) To build a portfolio with 5-10 individual stocks
 - c) **To purchase the shares of a mutual fund**
 - d) To purchase stocks that plot above the security market line
243. 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

244. 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
245. 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
246. 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
247. _____ is the variability of possible outcomes from a given investment.
- a) Beta
 - b) Return
 - c) **Risk**
 - d) Variance
248. 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
249. 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
250. 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
251. 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**
252. 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
253. 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
254. 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
255. 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
256. 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
257. 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

258. 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
259. 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
260. 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**
261. Which of the following is not an organized exchange?
- a) AMEX
 - b) NASDAQ
 - c) NYSE
 - d) None of the above**
262. Recently stock exchanges have moved toward share prices stated in _____.
- a) Fractions
 - b) Whole numbers
 - c) Decimals**
 - d) None of the above
263. 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
264. 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
265. Investment bankers are intermediaries between business firms and _____.
- a) Banks

- b) Securities dealers
 - c) **The investing public**
 - d) None of the above
266. Leveraged buyouts rely on _____ to purchase a firm.
- a) **Debt**
 - b) Equity
 - c) Cash
 - d) None of the above
267. 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
268. _____ of earnings may occur after a new stock issue is made.
- a) Maximization
 - b) **Dilution**
 - c) Termination
 - d) Stabilization
269. 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
270. 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
271. _____ 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
272. Which of the following are functions of an investment banker?
- a) Underwriter
 - b) Market maker

- c) Advisor
 - d) **All of Above**
273. 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
274. 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
275. A _____ is a long-term senior bond without collateral.
- a) Subordinated debenture
 - b) **Debenture**
 - c) Junior debenture
 - d) Indenture
276. 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
277. 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
278. 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
279. 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
280. Zero coupon bonds:
- a) Are sold at par.
 - b) Pay no interest payment
 - c) Are sold at a deep discount.
 - d) **B and C**
281. 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**
282. 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**
283. _____ have a claim to the residual income of the firm.
- a) Bondholders
 - b) Preferred Stockholders
 - c) **Common Stockholders**
 - d) None of the above
284. _____ 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
285. Which of the following types of voting includes minority shareholders?
- a) **Cumulative**
 - b) Preferred

- c) Majority
 - d) None of the above
286. 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
287. When a rights offering is announced, the stock initially trades:
- a) Ex-rights
 - b) **Rights-On**
 - c) No-rights
 - d) Pre-emptive right
288. _____ makes a firm unattractive in case of a takeover bid.
- a) Rights offering
 - b) Greenmail
 - c) **Poison Pill**
 - d) Black Knight
289. _____ 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**
290. Securities that have a mandatory dividend are:
- a) Bonds
 - b) Preferred stock
 - c) Common stock
 - d) **None**
291. 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
292. Which of the following have ownership interest in the firm?
- a) **Common Stockholders**
 - b) Preferred stockholders
 - c) Bondholders
 - d) All of the above
293. 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**
294. One desire of stockholders regarding dividend policy is:
- a) **Stable Dividends**
 - b) Frequent dividends
 - c) Low dividends
 - d) High dividends
295. 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
296. 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
297. 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

298. 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**
299. 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**
300. 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
301. 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