



Virtual University  
About Us

MGT201  
Solved Final Term Paper 1

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Year  
2017

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the Name of Allāh, the Most Gracious, the Most Merciful

### Paper Pattern

MCQS 52 each 1 mark  
Short 3 each 3 marks  
long 5 each 5 marks

Financial Management (MGT201)

Question: 10 (Marks: 1)

Attempted Questions: 4

Total Questions: 55

Market portion of risk can be represented through which of the following?

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#### Choices:

Standard deviation

Beta coefficient

Correlation coefficient

Variance

In Perfect Markets, the rational investors have diversified away which of the following?

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## Choices:

Company Specific Risk

Market risk

Systematic risk

Non-diversifiable risk

In a market where the SML (Security Market Line) has low slope, most of the investors are:

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## Choices:

Risk lover

Risk averse

Professional investors

None of the given options

What should be used to calculate the proportional amount of equity financing employed by a firm?

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Choices:

The book value of the firm

The sum of common stock and preferred stock on the balance sheet

The current market price per share of common stock times the number of shares outstanding

The common stock equity account on the firm's balance sheet

Which of the following is an example of floatation cost?

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Choices:

Drawings by owners

Commission on purchase

Interest on capital

Brokerage commission

In the WACC equation ( $r_D x_D + r_{E\&E} + r_P x_P$ ),  $x_D$  represents which of the following?

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## Choices:

Weight or Fraction of Total Capital value raised from bonds



Weight or Fraction of Total Capital value raised from preferred stock

Weight or Fraction of Total Capital value raised from common stock

Weight or Fraction of Total Capital value raised from retained earnings

The date on which the names of stockholders in the Stock Transfer Register of firm are documented is referred as:

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## Choices:

Declaration Date

Holder-of-record Date



Ex-Dividend Date

Payment Date

Mr. X is going to purchase the stock of ABC Company. Mr. X should purchase the stock on which date so that he can be entitled to receive the dividend, keeping in mind the ex-dividend date is December 7?

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Choices:

December 6

December 7

December 8

December 9

Company ABC offers its stockholders 10 % stock dividends and Mr. S is one of its stockholders being the owner of 250 stocks. How many shares Mr. S has after availing the stock dividend?

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Choices:

25

50

275

250

All of the following can be the possible benefits of maintaining the large amount in current assets **EXCEPT**:

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## Choices:

Less risk of shortages & interruptions

Less loss of sales due to availability of funds

Lower opportunity cost of capital

High liquidity leading to better credit Rating

Which of the following best matches this statement: "A policy under which relatively large amount of cash, marketable securities, and inventories are carried and under which sales are stimulated by a liberal credit policy, resulting in a high level of receivable"?

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## Choices:

Fat cat working capital policy

Lean & Mean working capital policy

Moderate working capital policy

None of the given options

Which of the following depicts the break even point in best way?

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Choices:

EBIT = 0

EBIT < 0

EBIT > 0

None of the given options

Which of the followings is an example of hedging (maturity matching) approach to financing working capital?

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Choices:

Financing short-term needs with short-term funds

Financing short-term needs with long-term debt

Financing seasonal needs with long-term funds

Financing some long-term needs with short-term funds

If selling price per unit falls and all other factors remain constant, the operating break-even points (units) will \_\_\_\_\_.

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Choices:

Fall

Rise

Remain the same

None of the given options

Which of the followings are the explicit costs associated with corporate default, such as fees paid to the lawyers and accountants?

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Choices:

Flotation costs

Default beta coefficients

Direct bankruptcy costs

Indirect bankruptcy costs



From which of the following, negative net worth of the company is expressed?

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Choices:

Experiencing a project failure

Competitor's insolvency

Experiencing technical insolvency

Experiencing accounting insolvency

Which of the following mathematical expressions refers to synergy?

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Choices:

$2+2=3$

$2+2=5$

$2+2=4$

None of the given options

When market value of another similar firm is less than the cost of replacing the assets of your own firm, it is better to buy another firm. It is known as:

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## Choices:

Cherry picking



Divestiture

Spin-off

Asset stripping

Calculate the Forward Rate for Rupee if the interest on 1 Year Maturity in Pakistan is 10% and in Australia is 6% and the current spot rate is Rs.76/ AUD.

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## Choices:

Rs. 6 per AUD

Rs. 76 per AUD

Rs. 79 per AUD



Rs. 456 per AUD

What is bid rate for currency?

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Choices:

Buying rate for currency



Selling rate of currency

Forward rate of currency

Ask rate of currency

You have 25 Indian Rupees and you want to exchange these Indian Rupees with Pakistan Rupees. You go to a money changer and he tells you the selling rate of 1 Indian Rupee is 1.8041 PKR. The rate 1.8041 PKR is referred as:

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Choices:

Bid rate

Forward rate

Future rate

Ask rate



Which one of the following concepts and techniques is NOT employed while analyzing investment decisions?

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Choices:

Net Present Value

Discounted Cash Flows

Time Value of Money

Forecasted financial statements



Which of the given feature is an optional retirement provision that permits the issuing company to call back a debt issue before its maturity date at a particular date?

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Choices:

Call in

Call option

Call provision



Put option

An investor will not invest in a particular stock if:

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Choices:

Stock's Required Return is lower than its Expected Return

Stock's Required Return is higher than its Expected Return

Stock's Required Return is equal to its Expected Return

All of the given options

What will be rational decision of an investor if his required rate of return for a stock is lower than the estimated return?

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Choices:

It is time to sell stock

It is time to buy stock

It is time to buy and sell of stock

None of the given options

Keeping into view SML equation, which of the given statement is CORRECT if stock  $\beta = 1$ .

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Choices:

Required rate of return of stock = Market return

Required rate of return of stock < Market return

Required rate of return of stock > Market return

Required more information to interpret the situation

Under Net income approach, which of the following is a correct sequence of calculating cost of capital?

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Choices:

Net income → Total firm's market value → WACC

Net income → WACC → total firm's market value

WACC → Net income → market value of equity

Market value of firm → WACC → Net income

With current assets of Rs. 16,000; current liabilities of Rs. 10,000; and Inventory of Rs. 2500, current ratio would be:

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Choices:

1.35

6.0

1.60

0.25

Corporation C has invested a large amount in its fixed assets. Which of the following statements is likely to be true for this firm?

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Choices:

High profitability but low risk

High profitability but high risk

Low profitability but high risk

Low profitability but low risk

All of the following are the components of CML (capital market line) equation EXCEPT:

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Choices:

Risk free rate of return

Risk of the market

Risk of stock portfolio

Net present value

Required ROR (rate of return) is different for every individual, but it is based on which of the following?

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Choices:

Perceived Risk relative to Market

Every Investor's Personal Opportunity Cost of Capital preference

Psychological Risk Profile of each Investor

All of the given options



What will be the effective interest rate if a bank offers 7% annual interest rate on fix deposit account semiannually?

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Choices:

7.12%

7.00%

10.71%

None of the given option

The decision of the required debt and equity ratio is made by which of the following?

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Choices:

Board of directors

Banks

Financial analyst

Shareholders

Which of the following is Not an example of bankruptcy cost?

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Choices:

- Loss on sale of assets
- Fee paid to lawyers and accountants
- Possible penalties & legal claims
- Fee paid to underwriters for issuance of stock

What happens to the total risk when leverage increases with higher rate?

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Choices:

- Total risk increases with slow rate than the leverage
- Total risk increases with decreasing rate
- Total risk remains the same
- Total risk increases faster than the leverage

What does the term "5/10.net 30 basis" mean?

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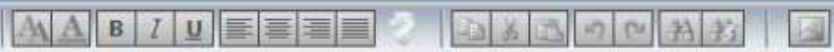
Answer:



A stock has a beta of 1.2 and an expected return of stock is 10.4%. Treasury bills are yielding 8%. You are required to calculate expected return of market with the help of provided information.

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Answer:



What strategies can be used by the target firms to respond to hostile raid?

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Answer:

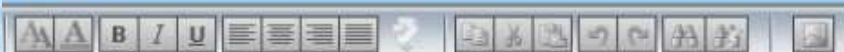


Kashish is ready made garments manufacturer for ladies. Its current assets for 1<sup>st</sup> quarter of financial year 2011 were Rs. 875,555. During the 2<sup>nd</sup> quarter of financial year 2011 inventory increased by Rs. 100,000. Due to this increase current assets for the 2<sup>nd</sup> quarter increased from Rs. 875,555 to Rs. 975,555.

**Required:** What will be consequences on financial health of current assets from 1<sup>st</sup> quarter to 2<sup>nd</sup> quarter?

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Answer:



Comapnies like to raise capital through debt financing rather than through equity financing. Why?

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Answer:

Explain international CAPM Model for Global Market with its equation and global efficient frontier.

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Answer: