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Rana Muhammad Safdar (rana.sfdr@gmail.com)

Bilal Farooq (bilal.zaheem@gmail.com)

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Collected and Composed by Bilal Farooq (bilal.zaheem@gmail.com)

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

Which of the following type of lease is a long-term lease that is not cancelable and its life often matches the useful life of the asset?

- ► **A financial**
- ► An operating
- ► Both financial & operating lease
- ► None of the given options

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

What is potentially the biggest advantage of a small partnership over a sole proprietorship?

- ► Unlimited liability
- ► Single tax filing
- ► Difficult ownership resale
- ► **Raising capital**

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

What is the present value of a Rs.1,000 ordinary annuity that earns 8% annually for an infinite number of periods?

- ► Rs.80
- ► Rs.800
- ► Rs.1,000
- ► **Rs.12,500**

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It will be treated as perpetuity, Formula is as under:
PV= PMT/i
= 1000/.08
= 12,500

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

As interest rates go up, the present value of a stream of fixed cash flows _____.

- ► **Goes down**
- ► Goes up
- ► Stays the same
- ► Can not be found

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

A capital budgeting technique through which discount rate equates the present value of the future net cash flows from an investment project with the project's

initial cash outflow is known as:

- ► Payback period
- ► **Internal rate of return**
- ► Net present value
- ► Profitability index

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

Which of the following has "Beta" as a measure of risk?

- ► Firm specific risk
- ► Diversifiable risk
- ► Unique risk
- ► **Market risk**

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

Which of the following risk can be diversified away?

- ► Un systematic risk
- ► Beta risk
- ► **Firm specific risk**
- ► Market risk

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

_____ is equal to (common shareholders' equity/common shares outstanding).

- ► **Book value per share**
- ► Liquidation value per share
- ► Market value per share
- ► None of the above

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

Which of the following is the variability of return on stocks or portfolios not explained by general market movements. It is avoidable through diversification?

- ► Systematic risk
- ► Standard deviation
- ► **Unsystematic risk**
- ► Financial risk

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

The Higher the Risk of a Share, the _____ its Rate of Return and the _____ its Market Price.

- ► **Higher; Lower**

P 89 The Higher the Risk of a Share, the Higher its Rate of Return and the Lower its Market Price.

- ► Lower; Higher
- ► Higher; Higher
- ► Lower; Lower

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

Which of the following is NOT a major cause of systematic risk.

- ► A worldwide recession
- ► A world war
- ► World energy supply
- ► **Company management change**

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

Capital budgeting is a decentralized function assigned to:

- ► Individuals
- ► Departments
- ► Teams
- ► **All of the given options**

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

Market risk is measured in terms of the _____ of the market portfolio or index.

- ► Variance
- ► Covariance
- ► **Standard deviation**

P 101

- ► Correlation coefficient

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

Why market values are often used in computing the weighted average cost of capital?

- ► This is the simplest way to do the calculation
- ► **This is consistent with the goal of maximizing shareholder value**
- ► This is required in the U.S. by the Securities and Exchange Commission
- ► None of the given options

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

Calculate the break-even (quantity) point given the following information. The firm has Rs.1, 000,000 in fixed costs. The firm produces only one product and

anticipates selling each unit for Rs.25 with variable costs of Rs.5 per unit.

- ► 200,000
- ► **50,000**
- ► 40,000
- ► There is not sufficient information provided to calculate the sales break-even point.

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

Which of the following costs would be considered a fixed cost?

- ► Raw materials
- ► **Depreciation**
- ► Bad-debt losses
- ► Production labor

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

In the context of operating leverage break-even analysis, if selling price per unit falls and all other variables remain constant, what will be the effect on the operating break-even point in units?

- ► Fall
- ► **Rise**
- ► Stay the same
- ► Incomplete information

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

Which of the following represents financial leverage?

- ► **Use of more debt capital to increase profit**
- ► Debt is not used in capital to increase profit
- ► High degree of solvency
- ► Low degree of solvency

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

Which of the following is NOT a reason for international investment?

- ► To provide an expected risk-adjusted return in excess of that required
- ► To gain access to important raw materials
- ► To produce products and/or services more efficiently than possible domestically
- ► **International investments have less political risk than domestic investments**

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

Assuming that the firm can either hold cash paying no interest or invest in marketable securities, which of the following might induce the manager to hold higher cash balances?

► **The cost of borrowing is high relative to interest rates on marketable securities (Doubted)**
► Future cash flows are relatively predictable
► The cost of cash balances is relatively high
► Bank interest rates are expected to increase

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

The stock in your portfolio was selling for Rs. 40 per share yesterday, but has today declared a three for two stock split. Which of the following statements seems to be true?

► There will be two-thirds as many shares outstanding, and they will sell for Rs.60.00 each
► There will be four times as many shares outstanding, and they will sell for Rs.160.00 each
► **There will be 50 percent more shares outstanding and they will sell for Rs.26.67 each**
► There will be one-and-one-half times as many shares outstanding, and they will sell for Rs.60.00 each

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

After the payment of a 25% stock dividend, an investor has 500 shares of stock and Rs. 400 total value. What did the investor have prior to the stock dividend?

► 375 shares of stock and Rs. 375 total value
► **400 shares of stock and Rs. 400 total value**

Because stock dividend did not increase the value. It only increases the number of stocks.

► 400 shares of stock and Rs. 500 total value
► 625 shares of stock and Rs. 400 total value

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

Which term would most likely be associated with the phrase "actions speak louder than words?"

► Incentive signaling
► Shareholder wealth maximization
► **Financial signaling**
► Optimal capital structure

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

The KSE (Karachi Stock Exchange) 100 Index represents what?

► **The value of Portfolio of Highest volume stocks**
► The value of Portfolio of all Stocks
► The value of Portfolio of lowest volume stocks

► None of the given options

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

While calculating the stock Beta graphically, y-intercept refers to:

► Market risk
► Systematic risk
► **Company's specific risk**

P 109

► Non-diversifiable risk

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

Which of the following helps you to reduce your portfolio's risk?

► Own more than 20 securities
► **Own a basket of securities that don't behave alike (Doubted)**
► Own a bunch of stocks from the same industry
► Own less risky securities only

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

If a stock is part of totally diversified portfolio then which of the following is TRUE for that stock?

► Stock's total Risk = Company Risk
► **Stock's total Risk = Market Risk**

P 109 If a Stock is Part of a Totally Diversified Portfolio then its Company Risk = 0. Therefore Total Risk = Market Risk. And the Stock points will lie exactly on the Regression line.

► Stock's total Risk = Market Risk + Company Risk
► All of the given options

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

If the Market Risk of a stock is 25% and Stock's Beta is 2.0, then what is the Relevant Market Risk Component of that stock?

► 30%
► 40%
► **50%**
► 60%

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

If the Market Risk of a stock is 15% and Stock's Beta is 2.5 then what is the Relevant Market Risk Component of that stock?

► 30%
► 34%
► **38%**
► 42%

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

Which of the following is the main feature to adopt the Arbitrage Pricing Model?

- ► Risk need not to be considered
- ► It has covered all the shortfalls of the Capital Asset Pricing Model
- ► The model requires a specific benchmark market portfolio
- ► **The model provides specific guidance concerning the determination of the risk premiums on the factor portfolios**

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

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

- ► 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

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

Tax Preference Theory suggests that shareholder wealth is maximized by low dividend payout because of which of the following reasons?

- ► Marginal tax rate on dividends is lower than on capital gains
- ► **Marginal tax rate on dividends is higher than on capital gains**
- ► Marginal tax rate on dividends is equal to capital gains
- ► None of the given options

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

Bird-in-the-hand dividend theory was proposed by which of the following?

- ► Miller Modigliani
- ► **Myron Gordon and John Lintner**
- ► Henry Fayol
- ► William John and Lehman

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

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

- ► Declaration Date
- ► **Holder-of-record Date**
- ► Ex-Dividend Date
- ► Payment Date

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

XYZ Corporation has offered its shareholders the option that their dividends will

be used to purchase additional shares of this corporation. This offer of XYZ Corporation is referred as:

► Stock repurchases

► **Dividend reinvestment**

Dividend Reinvestment Plans (DRIP): Firms give stockholders option to automatically reinvest cash dividends by buying more of the same stock

► Stock dividends

► Stock splits

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

Calculate the return on equity (ROE) of ABC Company using Du Pont equation and the data given below:

Profit Margin= 30%

Asset Turnover= 50%

Leverage Factor = 60%

► 3.6%

► **9%**

► 14%

► 33%

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

Business risk stems from operations and the _____ of the firm.

► Liability

► **Asset**

P 133 Business risk stems from the operation and the assets of the firm.

► Capital

► Revenue

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

Which of the following statements is TRUE about an aggressive approach to finance working capital?

► Financing seasonal requirements of current assets with short-term debt and permanent requirement of current assets with long term debt

► Financing permanent requirements of current assets with short-term debt and seasonal requirement of current assets with long term debt

► **Financing seasonal as well as permanent requirements of current assets with short-term debt**

Financing some long-term needs with short-term funds. This is a maturity matching approach and is neither aggressive nor conservative in nature Rather, it is a moderate approach.

► Financing seasonal as well as permanent requirements of current assets with long term debt

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

Every firm strives to achieve which of the following?

- ► To keep Return on Equity (ROE) lower than Expected return (rE)
- ► To keep Return on Equity (ROE) equal to Expected return (rE)
- ► **To keep Return on Equity (ROE) higher than Expected return (rE) doubted**
- ► All of the given option

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

Capital structure theory is presented by which of the following?

- ► **Modigliani & Miller**
- ► Brigham & Houston
- ► Van Horne & Gittman
- ► Robert Alan Hill

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

Which of the following is (are) the characteristics of operating lease?

- ► Lessor maintains and finances the Asset
- ► It is not fully amortized
- ► It is cancelable
- ► **All of the given options**

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

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:

- ► **Cherry picking**

P 176

- ► Divestiture
- ► Spin-off
- ► Asset stripping

Question No: 43 (Marks: 1) - Please choose one

Most of the firms wish to maintain their capital structure in the form of which of the following?

- ► 100% equity
- ► **100% debt**
- ► Mix of debt and equity
- ► 100% from the personal savings

Question No: 44 (Marks: 1) - Please choose one

Calculate the Forward Rate for Rupee using Interest Rate Parity if the interest on 1

Year Maturity in Pakistan is 10% and on Euro is 6% and the forward rate is Rs.124/ EUR.

- ► Rs. 6 per EUR
- ► Rs. 120 per EUR
- ► **Rs. 124 per EUR**
- ► Rs. 1240 per EUR

Question No: 45 (Marks: 1) - Please choose one

If Return on Equity (ROE) is higher than the Expected Return (ROE > r_E), then which of the following is better for the firm to pursue?

- ► **To plough the retained earnings back into the business**

P 166

- ► To pay out the dividend this will raise the share price
- ► To finance short-term needs with long-term debt
- ► To finance seasonal needs with long-term funds

Question No: 46 (Marks: 1) - Please choose one

Which of the following is a bond that could be defined as "a bond bearing a yield that may rise or fall according to the fluctuations in the market"?

- ► High yield bond
- ► **Floating rate bond**

P 65

- ► Low coupon bond
- ► Euro bond

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Question No: 47 (Marks: 1) - Please choose one

Which of the following can be used as measure of return?

- ► **Forecasted selling price**

P 85 We can use Forecasted Selling Price as measure of Return

- ► Forecasted purchase price
- ► Forecasted dividend
- ► Forecasted time span of project

Question No: 48 (Marks: 1) - Please choose one

When $\rho_{AB} = 0$ it means that:

- ► **Investments are not correlated (doubted)**
- ► Investments are perfectly positively correlated
- ► Investments are perfectly negatively correlated
- ► None of the given options

Question No: 49 (Marks: 3)

"Lease is just like Collateralized Loan". Explain this statement.

Question No: 50 (Marks: 3)

From the given information calculate the Net income.
EBIT is Rs. 50, 000, fraction of debt in capital structure is 20, return on debt is 10%, amount of debt is Rs. 20, 000 and tax rate is 35%.

Question No: 51 (Marks: 5)

Differentiate stock splits from stock dividends.

Question No: 52 (Marks: 5)

Aamir Corporation has a capital structure of debt and equity with the percentage of 40 and 60 respectively. Tax rate for the company is 35%. On company's outstanding bonds it pays 9%. Aamir has calculated the WACC for his company is 9.96%. What would be the cost of equity capital of Aamir Corporation?

Question No: 53 (Marks: 5)

What is Operating Lease? Explain with the help of example.

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