WWW.VUPages.com
http://forum.vupages.com
Largest Online Community of VU Students

	MIDTERM EXAMINATION FALL 2006 ACC501 - BUSINESS FINANCE (Session - 3)	Marks: 40 Time: 60min

StudentID/LoginID: _____

Student Name: _____

Center Name/Code: _____

Exam Date: Wednesday, December 06, 2006

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of **10** Multiple Choice Questions (MCQ's), **5** Fill in the Blanks, **5** Short Questions and **1 Numerical** Question.
- You should try to complete MCQ's in 10 - 15 minutes in order to avail 75 - 80 minutes for the Numerical question.
- For each MCQ, read the choices available carefully and select the choice which you consider is the most suitable, by clicking on the appropriate circle.
- Save your answer before proceeding to the next question.
- Do not click the "Finish button" while solving your paper. Once you clicked the "Finish" button, you will not be able to access your paper again. ***Click it only at the end after attempting the whole paper, which will be an indication that you have submitted your complete paper.***
- You are required to show all the working of short questions as well as numerical question in your answers.
- The use of calculator and financial tables is allowed.

- A clock has been given in the exam software. Software will automatically be closed after 90 minutes.
- It is your responsibility to manage time and responses to test questions effectively.
- Failure to comply with the supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

For Teacher's use only											
Question	1	2	3	4	5	6	7	8	9	10	Total
Marks											
Question	11	12	13	14	15	16	17	18	19	20	
Marks											
Question	21										
Marks											

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

A major disadvantage of the corporate form of organization is the _____.

- ▶ Inability of the firm to raise large sums of additional capital
- ▶ Double taxation of dividends
- ▶ Limited liability of shareholders
- ▶ Limited life of the corporate firm

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

Which one of the following current asset is not treated as a cash flow from operating activities?

- ▶ Trade receivable

- Cash and cash equivalent
- Inventory
- Short term investment

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

Suppose you can earn a 7.2 percent interest rate per year. According to the rule of 72, it will take approximately _____ years to double your money.

- 5.00
- 7.20
- 10.00
- 100.0

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

Rahim Corporation has a cash coverage ratio of 7 times. It's earning before interest and tax is Rs.900 million. It has total assets of Rs.3 billion. The company has a policy of charging 5 % annual depreciation. By using the above information, what would be the interest expense for the year?

- 90 million
- 120 million
- 140 million
- 150 million

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

Suppose ZM Corporation has a debt to equity ratio of 1.50 times. It has the return on assets of 14%. The return on equity would be _____.

- 25%

- 30%
- 35%
- 40%

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

Lets Tulips Corporation has return on assets for the year is 14 % .The Corporation has a policy to retain 40 percent of their income. Then the Corporations internal growth rate would be _____.

- 5.246 %
- 5.754 %
- 5.932 %
- 6.589 %

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

If the interest rate is 24 % compounded quarterly, what would be the 5-year discount factor?

- 3.10585
- 3.20714
- 3.50152
- 3.80153

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

Suppose you expect to receive Rs.3,000 per year forever. The opportunity rate is 12 %.The present value of this would be _____.

- Rs.20,000
- Rs.23,000
- Rs.25,000
- Rs.28,000

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

The bonds are classified as _____ if the maturity of the bond is less than 10 years when issued.

- Term finance certificate
- Debentures
- Notes
- None of the given options

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

_____ is a kind of bond that allows the holder to force the issuer to buy the bond back at a stated price.

- Convertible bond
- Floating rate bond
- Income bond
- Put bond

Question No: 11 (Marks: 1)

A _____ is responsible for managing cash and raising finances for the business.

Question No: 12 (Marks: 1)

Current ratio and quick ratio of a firm will be equal if its current assets do not contain _____.

Question No: 13 (Marks: 1)

Coupon rate has a floor and a ceiling. These upper and lower rates are also called _____.

Question No: 14 (Marks: 1)

_____ is that part of the indenture or loan agreement that limits certain actions which a company might wish to take during the term of the loan.

Question No: 15 (Marks: 1)

The relationship between the real and nominal returns is described by the _____.

Question No: 16 (Marks: 3)

Discuss the significance of financial statements.

Question No: 17 (Marks: 3)

What is underwriting contract? Discuss in detail.

Question No: 18 (Marks: 3)

How much an investor has to invest a lump sum amount in order to have Rs.3 million in 20 years from now if the rate of interest is 16 % compounded quarterly?

Question No: 19 (Marks: 3)

Draw a time line for the annuity due of Rs.900 for 6 years. Also, describe the relationship between an ordinary annuity and annuity due with the help of equation.

Question No: 20 (Marks: 3)

Mr. Martin is considering the purchase of land for Rs.650, 000, which may be sold for Rs.850, 000 in 7 years. If the discount rate is 16% compounded quarterly, will this be a good investment?

Question No: 21 (Marks: 10)

Mr. Imran has Rs.150, 000 in cash that he can deposit in any of four savings accounts in four different banks for a 7 year period. Bank A compounds interest on an annual basis; Bank B compounds interest twice each year; Bank C compounds interest each quarter and Bank D compounds interest on daily basis. All four banks have a stated annual interest rate of 12%.

Required:

a. What amount would Mr. Imran have at the end of 7^{th} year in each bank?
b. What effective annual interest rate would he earn in each of the four banks?
c. On the basis of your findings in a and b, which bank should Mr. Imran deal with? and Why?