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ACC 501 Solved MCQ'S For MID & Final Exam

1. Which of the following is an example of positive covenant?
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets wrong question option d is negative and all is positive example
Wrong, wrong, wrong question it is unfair discipline
2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?
Select correct option:
0.101
0.220
0.667
0.818
Reference:(1-0.45=0.55)
=0.45/0.55=0.818
3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?
Select correct option:
Rs. 1,360
Rs. 2,000
Rs. 5,625
Rs. 8,960
Reference: 8000*12/100=8960
4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?
Select correct option:
Rs. 30.19
Rs. 43.52
Rs. 56.53
Rs. 71.25
Reference: D*1+g/r-g
4.75*(1+0.5/4.75-0.5)=71.25
5. **A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**
Select correct option:
Semiannually
Quarterly
Monthly
Daily
Reference:(1+APR/m)^m-1
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PR=9
M=30
(1+9/30)^30-1=9.38
6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslamwould have as per cumulative voting

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procedure?
Select correct option:
100 votes
200 votes
300 votes
400 votes
Reference: 100*4=400
7. **SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15%required rate of return?**
Select correct option:
Rs. 30
Rs. 40
Rs. 50
Rs. 60
Reference: 6/0.15=40
8. **Which of the following process can be defined as the process of generating earnings from previous earnings?**
Select correct option:
Discounting
Compounding
Factorization
None of the given options
9. **Which of the following is the amount of cash we would get if we actually sell an asset?**
Select correct option:
Market Value
Book Value
Intrinsic Value
None of the given options
10.

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11. **Which of the following financial statement shows both dollars and percentages in the report?**
Select correct option:
Balance Sheet
Common-Size Statement
Income Statement
Relative Statement of Equity
12. **in which form of Business, owners have limited libility.**
Select correct option:
sole proprietorship
partnership
joint stock company
none of the above
13. **Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**

Select correct option:
2.6 Years
3.1 Years
3.7 Years
4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?
Select correct option:
Time value of money is ignored
It fails to consider risk differences
Simple and easy to calculate
None of the given options pg 106

15. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing** or selling:
Select correct option:

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Debt securities or bonds pg 71
Common Stocks
Preferred Stock
All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**
Select correct option:
Government bonds 85
Zero coupon bonds
Floating-rate bonds
Euro bonds

17. **When real rate is _____, all interest rates will tend to be _____.**
Select correct option:
Low; higher
High; lower
High; higher pg 88
None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?
Select correct option:
A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.
When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.
All of the given options

19. **Between the two identical bonds having different coupon, the price of the _____ bond will change less than that of _____ bond.**
Select correct option:
Higher-coupon; lower-coupon
Lower-coupon; higher-coupon
Long-term; short-term
None of the given options

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20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**
Select correct option:
Ordinary Annuity
Annuity Due
Ordinary perpetuity pg 91
None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**
Select correct option:
Float
Collar pg 86
Limit
Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:
Select correct option:
Simple Interest Rate
Compound Interest Rate
Economic Rate of Return
Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?
Select correct option:
D2 = D1 x (1 + g)
D2 = Do x (1 + g)2
D2 = Do x (1 + g)2
All of the given options pg 92

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24. **A project whose acceptance does not prevent or require the acceptance of one or more alternative** projects is referred to as a(n):
Select correct option:
mutually exclusive project
independent project
dependent project
contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?
Select correct option:
Rs. 40,000
Rs. 55,000
Rs. 65,000
Rs. 72,000
Reference=600000*1.12=672000-600000=72000

26. Which of the following statement is TRUE regarding debt?
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure. Pg 78

Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) _____ bond.

Select correct option:

Income

Zero coupon

Floating-rate

Put

28. A _____ covenant limits or prohibits actions that company might take.

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Select correct option:

Positive

Negative pg 80

Neutral

None of the given options

29. IRR and NPV rules always lead to identical decisions as long as:

Select correct option:

Cash flow s are conventional

Cash flow s are independent

Cash flow s are both conventional and independent pg 110

None of the given options

30. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

31. **Which of the following is NOT a quality of IRR?**

Select correct option:

Most widely used

Ideal to rank the mutually exclusive investments pg 116

Easily communicated and understood

Can be estimated even without knowing the discount rate

32. **In which type of the market, previously issued securities are traded among investors?**

Select correct option:

Primary Market

Secondary Market pg 100

TertiaryMarket

None of the given options

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33. **A model which makes an assumption about the future growth of dividends is known as:**

Select correct option:
Dividend Price Model
Dividend Growth Model
Dividend Policy Model
All of the given options

34. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**
Select correct option:
If Profitability Index > 1, NPV is Negative (-)
If Profitability Index < 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Zero (0)

35. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period
Net Present Value pg 118
Average Accounting Return

36.
Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?
Select correct option:
Payback Period pg 119
Net Present Value
Profitability Index
Internal Rate of Return

37. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining any collateral or security in good condition
Limiting the amount of dividend according to some formula
Restricting pledging assets to other lenders
Barring merger with another firm

38. **Which of the following is the most common capital budgeting technique?**
Select correct option:
Payback Period

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Net Present Value
Internal Rate of Return
Profitability Index

39. Which of the following measures the present value of an investment per dollar invested?
Select correct option:
Net Present Value (NPV)
Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI) pg 119

40. Which of the following is a measure of accounting profit relative to the book value?
Select correct option:

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Net Present Value
Profitability Index
Internal Rate of Return
Average Accounting Return pg 119
41. **Which one of the following typically applies to preferred stock but not to common stock?**
Select correct option:
Dividend yield
Cumulative dividends
Voting rights
Tax deductible dividends
42. **Treasury notes and bonds are examples of which of the following types of bonds?**
Select correct option:
Government bonds pg 86
Zero coupon bonds
Floating-rate bonds
Euro bonds
43. **Expectation of a ____ inflation rate will push long term interest rates ____ than short term rates reflected by an upward term structure.**
Select correct option:
Lower; higher
Higher; lower
Higher; higher pg 88
None of the given options

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44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6months?
Select correct option:
3 percent
6 percent
9 percent
12 percent
60+60=120/1000=12%
45. **The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**
Select correct option:
2.00 Years
2.67 Years
3.00 Years
3.67 Years
Project=800 paid in 1 year=100, 2nd year=300 and 3rd year=400 total 800 paid in 3rd year
In which of the following type of annuity, cash flows occur at the beginning of each period?
Select correct option:
Ordinary annuity
Annuity due pg 66

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Perpetuity
None of the given options
46. **Which of the following is NOT an important feature of treasury notes and bonds?**
Select correct option:
Default free
Taxable
Least liquid pg 90
Highly liquid
Which of the following is NOT a determinant of term structure?
Select correct option:
Real rate of interest
Internal rate of interest pg 88
Expected inflation

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Interest rate risk
47. **Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**
Select correct option:
Yield to maturity
Maturity Period
Payback period pg 104
Accounts Receivable period
m.q .z
48. **In which type of the market, securities are originally sold to the investors?**
Select correct option:
PrimaryMarket
SecondaryMarket
TertiaryMarket
None of the given options
49. **A _____ is an agent who arranges security transactions among investors.**
Select correct option:
Broker pg 100
Dealer
Member
Specialist
volatile
50. **Which of the following is a characteristic of preferred stock?**
Select correct option:
These stocks have not stated liquidating value
Dividends on these stocks can be cumulative pg 100
These bonds hold credit ratings quite different from bonds
These stocks have not any kind of priority over common stocks
51. **Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?**
Select correct option:
Government bonds
Zero coupon bonds pg 85

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Floating-rate bonds
Euro bonds
52. An investment will be _____ if the IRR doesn't exceeds the required return and _____ otherwise.
Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected
Rejected; accepted pg 109 conceptual
53. Which of the following comes under the head of accounting criteria for capital budgeting decision?
Select correct option:
Payback Period
Net Present Value
Profitability Index
Average Accounting Return pg 119
54. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**
Select correct option:
Ordinary annuity pg 63
Annuity due
Perpetuity
None of the given options
55. **Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**
Select correct option:
Net Present Value (NPV)
Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI)
56. **One would be indifferent between taking and not taking the investment when:**
Select correct option:
NPV is greater than Zero
NPV is equal to Zero pg 104 doubt ask question in mdb

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NPV is less than Zero
All of the given options
57. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest** rates?
Select correct option:
Fluctuations Risk
Interest Rate Risk pg75
Real-Time Risk
Inflation Risk
58. All else equal, the market value of a corporate bond is always inversely

related to its:
Select correct option:
Time to maturity
Coupon rate
Yield to maturity
All of the given options
59. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets
60. **Period costs include which of the following?**
Select correct option:
Selling expense
Raw material
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Direct labor
Manufacturing overhead
61. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses
62. **Financial policy is evaluated by which of the following?**
Select correct option:
Profit Margin
Total Assets Turnover
Debt-equity ratio
None of the given options
63. Cash flow from assets involves which of the following component(s)?
Select correct option:
Operating cash flow
Capital spending
Change in net working capital
All of the given options
64. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**
Select correct option:
Operating Cash Flows
Investing Cash Flows
Financing Cash Flows
All of the given options
65. Finance is vital for which of the following business activity (activities)?
Select correct option:
Marketing Research

Product Pricing
Design of marketing and distribution channels
All of the given options
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66. **Which of the following costs are reported on the income statement as the cost of goods** sold?
Select correct option:
Product cost
Period cost
Both product cost and period cost
Neither product cost nor period cost
67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?
Select correct option:
5 days
36 days
48 days
73 days
750000/150000=5
365/5=73days
68. **Which of the following terms refers to the use of debt financing?**
Select correct option:
Operating Leverage
Financial Leverage
Manufacturing Leverage
None of the given options
69. **In which type of market, new securities are traded?**
Select correct option:
Primary market
Secondary market
Tertiary market
None of the given options
70. **Which of the following ratios are particularly interesting to short-term creditors?**
Select correct option:
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Liquidity Ratios
Long-term Solvency Ratios
Profitability Ratios
Market Value Ratios
71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Owner's Equity Statement

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72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity
Financing activity
None of the given options
73. **me: Quick Ratio is also known as:**
Select correct option:
Current Ratio
Acid-test Ratio
Cash Ratio
74. **of the following statement measures performance over a specific period of time?**
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Retained Earning Statement
75. **Which of the following statement shows assets, liabilities, and net worth as of a specific** date?

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Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
76. A portion of profits, which a company retains itself for further expansion, is known as:
Select correct option:
Dividends
Retained Earnings
Capital Gain
None of the given options
77. Which one of the following is NOT a liquidity ratio?
Select correct option:
Current Ratio
Quick Ratio
Cash Coverage Ratio
Cash Ratio
78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?
Select correct option:
Profit Margin
Return on Assets
Return on Equity
Total Assets Turnover
79. Which of the following is an example of capital spending?
Select correct option:

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Purchase of Fixed Assets
Decrease in NetWorking Capital
Increase in NetWorking Capital
None of the given options

80. Which of the following is measured by profit margin?
Select correct option:
Operating efficiency
Asset use efficiency
Financial policy
Dividend policy

81. Who of the following make a broader use of accounting information?
Select correct option:
Accountants
Financial Analysts
Auditors
Marketers

82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?
Select correct option:
Liquidity Ratios
Leverage Ratios
Profitability Ratios
Market Value Ratios

83. A company having a current ratio of 1 will have _____ net working capital.
Select correct option:
Positive
Negative
zero
None of the given options

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84. which of the following is not a form of business organization
Select correct option:
sole proprietorship
partnership
joint stock company
cooperative Society

85. Which of the following ratios are intended to address the firm's financial leverage?
Select correct option:
Liquidity Ratios
Long-term Solvency Ratios
Asset Management Ratios
Profitability Ratios

86. The accounting definition of income is:
Select correct option:
Income = Current Assets - Current Liabilities
Income = Fixed Assets - Current Assets
Income = Revenues - Current Liabilities

Income = Revenues - Expenses

87. **Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

All of the given options

88. **Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

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Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

Solution=250000*34%=85000

250,000-85000=165000

89. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

90. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

91. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

92. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

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Depreciation

All of the given options

93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?

Select correct option:

Rs. 100

Rs. 510

Rs. 1,000

Rs. 1,100
Solution:
=1000/10
=100
94. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period lec 28
Net Present Value
Average Accounting Return
None of the given options
95. Period costs include which of the following?
Select correct option:
Selling expense
Raw material
Direct labor
Manufacturing overhead
96. The value of net working capital will be greater than zero when:
Select correct option:
Current Assets > Current Liabilities
Current Assets < Current Liabilities
Current Assets = Current Liabilities
None of the given options
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97. **According to Du Pont Identity, ROE is affected by which of the following?**
Select correct option:
Operating efficiency
Asset use efficiency
Financial Leverage
All of the given options
98. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets
99. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity
Financing activity
None of the given options
100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level ofRs. 120,000?
Select correct option:
1.01
1.26

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1.39

1.52

Solution= 700000/460000=1.52

101. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:

Sole-proprietorship

General Partnership pg 6

Limited Partnership

Corporation

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102. **a firm uses cash to purchase inventory, its current ratio will:**

Select correct option:

Increase

Decrease

Remain unaffected

Become zero

103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:

Ordinary Annuity

Special Annuity

Annuity Due

Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:

Maintaining any collateral or security in good condition

Limiting the amount of dividend according to some formula

Restricting pledging assets to other lenders

Barring merger with another firm

105. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:

Net loss

Net worth

Markup

Markdown

106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:

Repayment

Seniority

Call provision

Protective covenants

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107. **_____ shows the sources from which cash has been generated and how it has been spent during a period** of time?

Select correct option:

Income Statement

Balance Sheet

Cash Flow Statement
Owner's Equity Statement
108. **Which of the following is a cash flow from financing activity?**
Select correct option:
Cash outflowto the government for taxes
Cash outflow to shareholders as dividends
Cash outflowto lenders as interest
Cash outflowto purchase bonds issued by another company
109. **Which of the following form of business organization is least regulated?**
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation
110. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity
Present value of a lump sum
111. **Which of the following relationships holds TRUE if a bond sells at a discount?**
Select correct option:
Bond Price < Par Value and YTM > coupon rate
Bond Price > Par Value and YTM > coupon rate
Bond Price > Par Value and YTM < coupon rate
Bond Price < Par Value and YTM < coupon rate
112. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or** selling:
Select correct option:
Debt securities or bonds
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Common Stocks
Preferred Stock
All of the given options
113. Which of the following item provides the important function of shielding part of income from taxes?
Select correct option:
Inventory
Supplies
Machinery
Depreciation
114. **A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be** the total worth of the firm's assets?
Select correct option:
Rs. 300,000
Rs. 500,000
Rs. 800,000
Rs. 1100,000

sol
Asset= liabilities+ capital so 300+500=800,000
115. **Which of the following forms of business organizations is created as a distinct legal entity owned** by one or more individuals or entities?
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation
116. in which form of Business, owners have limited libility.
Select correct option:
sole proprietorship
partnership
joint stock company
none of the above
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117. Which of the following equation is known as Cash Flow (CF) identity?
Select correct option:
CF from Assets = CF to Creditors - CF to Stockholder
CF from Assets = CF to Stockholders - CF to Creditors
CF to Stockholders = CF to Creditors + CF from Assets
CF from Assets = CF to Creditors + CF to Stockholder
118. **The difference between current assets and current liabilities is known as:**
Select correct option:
Surplus Asset
Short-term Ratio
Working Capital
Current Ratio
119. **A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount** of money the lender should lend?
Select correct option:
Rs. 14,186
Rs. 18,256
Rs. 22,697
Rs. 28,253
solution
40000*1/(1+0.12)^5=22697.07
120. **Which of the following statement is considered as the accountant's snapshot of firm's accounting** value as of a particular date?
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Retained Earning Statement
121. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity

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Present value of a lump sum

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122. **Which of the following statement about bond ratings is TRUE?**
Select correct option:
Bond ratings are typically paid for by a company's bondholders.
Bond ratings are based solely on information acquired from sources other than the bond issuer.
Bond ratings represent an independent assessment of the credit-worthiness of bonds.
None of the given options

123. **Which of the following is the acronym for GAAP?**
Select correct option:
Generally Applied Accountability Principles
General Accounting Assessment Principles
Generally Accepted Accounting Principles
General Accepted Assessment Principles

124. Which of the following is NOT an internal use of financial statements information?
Select correct option:
Planning for the future through historic information
Evaluation of performance through profit margin and return on equity
Evaluation of credit standing of new customer
None of the given options

125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.What is the** retention ratio for the firm?
Select correct option:
12 %
25 %
40%
60 %
Solution
Net income-dividend / net income *100
250000-150000/250000*100=40%

A company having a current ratio of 1 will have _____ net working capital. Select correct option:
Positive
Negative
zero

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None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**
Select correct option:
Dividends
Retained Earnings
Capital Gain
None of the given options

127. Which of the following is(are) the basic area(s) of Finance?
Select correct option:
Financial institutions

International finance
Investments
All of the given options
128. Which of the following ratios is NOT fromthe set of Asset Management Ratios?
Select correct option:
Inventory Turnover Ratio
Receivable Turnover
Capital Intensity Ratio
Return on Assets
129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**
Select correct option:
Rs. 1,000 because it has the higher future value
Rs. 1,000 because you receive it sooner
Rs. 1,050 because it is more money
Either because both options are of equal value
130. **Which of the following terms refers to the use of debt financing?**
Select correct option:
Operating Leverage
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Financial Leverage
Manufacturing Leverage
None of the given options
b
131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**
Select correct option:
8.42 years
10.51 years
15.75 years
18.78 years
6000(1+5%)^10.51=around 10,000
132. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets
133. Which of the following is measured by retention ratio?
Select correct option:
Operating efficiency
Asset use efficiency
Financial policy
Dividend policy
134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**

Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
Armaan: b

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135. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses

136. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?
Select correct option:
Rs. 500
Rs. 752
Rs. 1,052
Rs. 1,100
4100-3000=1100

137. **What is the effective annual rate of 7 percent compounded monthly?**
Select correct option:
7.00 percent
7.12 percent
7.19 percent
7.23 percent

138. **Which of the following cash flow activities are reported in the Cash Flow Statement and** Income Statement?
Select correct option:
Operating Activities
Investing Activities
Financing Activities
All of the given options

139. **Which of the following term refers to establish of a standard to follow for comparison?**
Select correct option:
Benchmarking 48
Standardizing

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Comparison
Evaluation

140. **Which of the following is measured by profit margin?**
Select correct option:
Operating efficiency pg 44
Asset use efficiency
Financial policy
Dividend policy

141. **Rule of 72 for finding the number of periods is fairly applicable to**

which of the following range of discount rates?
Select correct option:
2%to 8%
4%to 25%
5% to 20%
10% to 50%
142. **Which of the following refers to a conflict of interest between principal and agent?**
Select correct option:
Management Conflict
Interest Conflict
Agency Problem
None of the given options
143. **Which of the following is a series of constant cash flows that occur at the end of each** period for some fixed number of periods?
Select correct option:
Ordinary annuity 63
Annuity due
Perpetuity
None of the given options
144. **Which of the following area of finance deals with stocks and bonds?**
Select correct option:
Financial institutions
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International finance
Investments
All of the given options
145. **7:03 AM** **Which of the following is NOT an external use of financial statements** information?
Select correct option:
Evaluation of credit standing of new customer
Evaluation of financial worth of supplier
Evaluation of potential strength of the competitor
Evaluation of performance through profit margin and return on equity
146. Which of the following is(are) the basic area(s) of Finance?
Select correct option:
Financial institutions
International finance
Investments
All of the given options
147. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.** What is the profit margin?
Select correct option:
4.30%
6.00%
10.70%
16.73%
solution
Net income =ROA*total asset
Net income=8%*75000=6000

Profit margin=net income/ sales*100
Profit margin=6000/100000*100= 6%
148. Which of the following is the process of planning and managing a firm's long-term investments?
Select correct option:
Capital Structuring
Capital Rationing
Capital Budgeting
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Working Capital Management
149. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**
Select correct option:
Operating Cash Flows
Investing Cash Flows
Financing Cash Flows
All of the given options
150. **Quick Ratio is also known as:**
Select correct option:
Current Ratio
Acid-test Ratio
Cash Ratio
None of the given options
151. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?
Select correct option:
Sole-proprietorship
Partnership
Corporation
None of the given options
152. **If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be __ and __ respectively.**
Select correct option:
20%; 80%
37%; 63%
63%; 37%
80%; 20%
153. **When corporations borrow, they generally promise to: I.Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm**
Select correct option:
I and II
I and III
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II and IV
I, III, and IV
154. **Which of the following is NOT included in a bond indenture?**
Select correct option:
The basic terms of bond issue

The total amount of bonds issued
A personal profile of the issuer
A description of the security
155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**
Select correct option:
Rs. 6,302
Rs. 9,981
Rs. 14,800
Rs. 15,869
156. **Which of the following statement is TRUE regarding debt?**
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure.
Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.
157. **The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**
Select correct option:
5.00 percent
7.00 percent
8.45 percent
10.0 percent
158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?
Select correct option:
Ordinary Annuity
Special Annuity
AnnuityDue
Perpetuity

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159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**
Select correct option:
Rs. 150,000
Rs. 200,000
Rs. 250,000
Rs. 400,000
ROTA = N.P / Total Assets
4% = N.P / 500,000
4% * 500,000 = N.P
N.P = Rs. 20,000
N.P Margin = N.P / Sales
5% = 20,000 / Sales
5%* Sales = 20,000
Sales = 20,000 / 5%
Sales = 400,000
160. Which of the following rate makes the Net Present Value (NPV) equal to zero?

Select correct option:
Average Accounting Return (AAR)
Internal Rate of Return (IRR) pg 109
Required Rate of Return (RRR)
Weighted Average Cost of Capital (WACC)
161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**
Select correct option:
Current Yield
Yield ToMaturity
Coupon Yield
Capital Gains Yield
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162. **If a firm uses cash to purchase inventory, its quick ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero
163. **a firm uses cash to purchase inventory, its current ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero
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ACC 501 Solved MCQ'S For MID & Final Exam

1. Which of the following is an example of positive covenant?
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets wrong question option d is negative and all is positive example
Wrong, wrong, wrong question it is unfair discipline
2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity ratio?
Select correct option:
0.101
0.220
0.667
0.818
Reference:(1-0.45=0.55)
=0.45/0.55=0.818
3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?
Select correct option:

Rs. 1,360
Rs. 2,000
Rs. 5,625
Rs. 8,960
Reference: 8000*12/100=8960
4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?
Select correct option:
Rs. 30.19
Rs. 43.52
Rs. 56.53
Rs. 71.25
Reference: D*1+g/r-g
4.75*(1+0.5/4.75-0.5)=71.25
5. **A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**
Select correct option:
Semiannually
Quarterly
Monthly
Daily
Reference:(1+APR/m)^m-1
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APR=9
M=30
(1+9/30)^30-1=9.38
6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslamwould have as per cumulative voting procedure?
Select correct option:
100 votes
200 votes
300 votes
400 votes
Reference: 100*4=400
7. **SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15%required rate of return?**
Select correct option:
Rs. 30
Rs. 40
Rs. 50
Rs. 60
Reference: 6/0.15=40
8. **Which of the following process can be defined as the process of generating earnings from previous earnings?**
Select correct option:
Discounting
Compounding
Factorization

None of the given options

9. **Which of the following is the amount of cash we would get if we actually sell an asset?**

Select correct option:

Market Value

Book Value

Intrinsic Value

None of the given options

10.

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11. **Which of the following financial statement shows both dollars and percentages in the report?**

Select correct option:

Balance Sheet

Common-Size Statement

Income Statement

Relative Statement of Equity

12. **in which form of Business, owners have limited libility.**

Select correct option:

sole proprietorship

partnership

joint stock company

none of the above

13. **Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**

Select correct option:

2.6 Years

3.1 Years

3.7 Years

4.1 Years

14. Which of the following is NOT a shortcoming of Payback Rule?

Select correct option:

Time value of money is ignored

It fails to consider risk differences

Simple and easy to calculate

None of the given options pg 106

15. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing** or selling:

Select correct option:

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Debt securities or bonds pg 71

Common Stocks

Preferred Stock

All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

Government bonds 85

Zero coupon bonds

Floating-rate bonds
Euro bonds
17. **When real rate is _____, all interest rates will tend to be _____.**
Select correct option:
Low; higher
High; lower
High; higher pg 88
None of the given options
18. Which of the following statements is(are) CORRECT regarding a bond?
Select correct option:
A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.
When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.
All of the given options
19. **Between the two identical bonds having different coupon, the price of the _____ bond will change less than that of _____ bond.**
Select correct option:
Higher-coupon; lower-coupon
Lower-coupon; higher-coupon
Long-term; short-term
None of the given options
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20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**
Select correct option:
Ordinary Annuity
Annuity Due
Ordinary perpetuity pg 91
None of the given options
21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**
Select correct option:
Float
Collar pg 86
Limit
Surplus
22. Internal Rate of Return (IRR) is sometimes referred to as:
Select correct option:
Simple Interest Rate
Compound Interest Rate
Economic Rate of Return
Required Rate of Return
23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?
Select correct option:
$D2 = D1 \times (1 + g)$
$D2 = Do \times (1 + g)2$
$D2 = Do \times (1 + g)2$
All of the given options pg 92

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24. **A project whose acceptance does not prevent or require the acceptance of one or more alternative** projects is referred to as a(n):
Select correct option:
mutually exclusive project
independent project
dependent project
contingent project
25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?
Select correct option:
Rs. 40,000
Rs. 55,000
Rs. 65,000
Rs. 72,000
Reference=600000*1.12=672000-600000=72000
26. Which of the following statement is TRUE regarding debt?
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure. Pg 78
Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.
27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) _____ bond.
Select correct option:
Income
Zero coupon
Floating-rate
Put
28. A _____ covenant limits or prohibits actions that company might take.
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Select correct option:
Positive
Negative pg 80
Neutral
None of the given options
29. IRR and NPV rules always lead to identical decisions as long as:
Select correct option:
Cash flow s are conventional
Cash flow s are independent
Cash flow s are both conventional and independent pg 110
None of the given options
30. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**
Select correct option:
Repayment
Seniority
Call provision
Protective covenants
31. **Which of the following is NOT a quality of IRR?**

Select correct option:
Most widely used
Ideal to rank the mutually exclusive investments pg 116
Easily communicated and understood
Can be estimated even without knowing the discount rate

32. **In which type of the market, previously issued securities are traded among investors?**
Select correct option:
Primary Market
Secondary Market pg 100
TertiaryMarket
None of the given options

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33. **A model which makes an assumption about the future growth of dividends is known as:**
Select correct option:
Dividend Price Model
Dividend GrowthModel
Dividend PolicyModel
All of the given options

34. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**
Select correct option:
If Profitability Index > 1, NPV is Negative (-)
If Profitability Index < 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Zero (0)

35. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period
Net Present Value pg 118
AverageAccounting Return

36.
Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?
Select correct option:
Payback Period pg 119
Net Present Value
Profitability Index
Internal Rate of Return

37. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining any collateral or security in good condition
Limiting the amount of dividend according to some formula
Restricting pledging assets to other lenders
Barring merger with another firm

38. **Which of the following is the most common capital budgeting technique?**
Select correct option:
Payback Period

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Net Present Value
Internal Rate of Return
Profitability Index
39. Which of the following measures the present value of an investment per dollar invested?
Select correct option:
Net Present Value (NPV)
Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI) pg 119
40. Which of the following is a measure of accounting profit relative to the book value?
Select correct option:
Net Present Value
Profitability Index
Internal Rate of Return
Average Accounting Return pg 119
41. **Which one of the following typically applies to preferred stock but not to common stock?**
Select correct option:
Dividend yield
Cumulative dividends
Voting rights
Tax deductible dividends
42. **Treasury notes and bonds are examples of which of the following types of bonds?**
Select correct option:
Government bonds pg 86
Zero coupon bonds
Floating-rate bonds
Euro bonds
43. **Expectation of a ____ inflation rate will push long term interest rates ____ than short term rates reflected by an upward term structure.**
Select correct option:
Lower; higher
Higher; lower
Higher; higher pg 88
None of the given options
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44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6months?
Select correct option:
3 percent
6 percent
9 percent
12 percent
60+60=120/1000=12%
45. **The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be**

the payback period for the project?
Select correct option:
2.00 Years
2.67 Years
3.00 Years
3.67 Years
Project=800 paid in 1 year=100, 2nd year=300 and 3rd year=400 total 800 paid in 3rd year
In which of the following type of annuity, cash flows occur at the beginning of each period?
Select correct option:
Ordinary annuity
Annuity due pg 66
Perpetuity
None of the given options
46. **Which of the following is NOT an important feature of treasury notes and bonds?**
Select correct option:
Default free
Taxable
Least liquid pg 90
Highly liquid
Which of the following is NOT a determinant of term structure?
Select correct option:
Real rate of interest
Internal rate of interest pg 88
Expected inflation
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Interest rate risk
47. **Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**
Select correct option:
Yield to maturity
Maturity Period
Payback period pg 104
Accounts Receivable period
m.q .z
48. **In which type of the market, securities are originally sold to the investors?**
Select correct option:
PrimaryMarket
SecondaryMarket
TertiaryMarket
None of the given options
49. **A _____ is an agent who arranges security transactions among investors.**
Select correct option:
Broker pg 100
Dealer
Member
Specialist
volatile

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50. **Which of the following is a characteristic of preferred stock?**
Select correct option:
These stocks have not stated liquidating value
Dividends on these stocks can be cumulative pg 100
These bonds hold credit ratings quite different from bonds
These stocks have not any kind of priority over common stocks
51. **Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?**
Select correct option:
Government bonds
Zero coupon bonds pg 85
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Floating-rate bonds
Euro bonds
52. An investment will be _____ if the IRR doesn't exceeds the required return and _____ otherwise.
Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected
Rejected; accepted pg 109 conceptual
53. Which of the following comes under the head of accounting criteria for capital budgeting decision?
Select correct option:
Payback Period
Net Present Value
Profitability Index
Average Accounting Return pg 119
54. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**
Select correct option:
Ordinary annuity pg 63
Annuity due
Perpetuity
None of the given options
55. **Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**
Select correct option:
Net Present Value (NPV)
Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI)
56. **One would be indifferent between taking and not taking the investment when:**
Select correct option:
NPV is greater than Zero
NPV is equal to Zero pg 104 doubt ask question in mdb
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NPV is less than Zero
All of the given options
57. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest** rates?
Select correct option:
Fluctuations Risk
Interest Rate Risk pg75
Real-Time Risk
Inflation Risk
58. All else equal, the market value of a corporate bond is always inversely related to its:
Select correct option:
Time to maturity
Coupon rate
Yield to maturity
All of the given options
59. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets
60. **Period costs include which of the following?**
Select correct option:
Selling expense
Raw material
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Direct labor
Manufacturing overhead
61. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses
62. **Financial policy is evaluated by which of the following?**
Select correct option:
Profit Margin
Total Assets Turnover
Debt-equity ratio
None of the given options
63. Cash flow from assets involves which of the following component(s)?
Select correct option:
Operating cash flow
Capital spending
Change in net working capital
All of the given options
64. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:
Operating Cash Flows
Investing Cash Flows
Financing Cash Flows
All of the given options

65. Finance is vital for which of the following business activity (activities)?
Select correct option:
Marketing Research
Product Pricing
Design of marketing and distribution channels
All of the given options

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66. **Which of the following costs are reported on the income statement as the cost of goods** sold?
Select correct option:
Product cost
Period cost
Both product cost and period cost
Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?
Select correct option:
5 days
36 days
48 days
73 days
750000/150000=5
365/5=73days

68. **Which of the following terms refers to the use of debt financing?**
Select correct option:
Operating Leverage
Financial Leverage
Manufacturing Leverage
None of the given options

69. **In which type of market, new securities are traded?**
Select correct option:
Primary market
Secondary market
Tertiary market
None of the given options

70. **Which of the following ratios are particularly interesting to short-term creditors?**
Select correct option:

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Liquidity Ratios
Long-term Solvency Ratios
Profitability Ratios
Market Value Ratios

71. **shows the sources from which cash has been generated and how it has been**

spent during a period of time?
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Owner's Equity Statement
72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity
Financing activity
None of the given options
73. **me: Quick Ratio is also known as:**
Select correct option:
Current Ratio
Acid-test Ratio
Cash Ratio
74. **of the following statement measures performance over a specific period of time?**
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Retained Earning Statement
75. **Which of the following statement shows assets, liabilities, and net worth as of a specific** date?
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Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
76. A portion of profits, which a company retains itself for further expansion, is known as:
Select correct option:
Dividends
Retained Earnings
Capital Gain
None of the given options
77. Which one of the following is NOT a liquidity ratio?
Select correct option:
Current Ratio
Quick Ratio
Cash Coverage Ratio
Cash Ratio
78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?
Select correct option:
Profit Margin

Return on Assets
Return on Equity
Total Assets Turnover

79. Which of the following is an example of capital spending?
Select correct option:

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Purchase of Fixed Assets
Decrease in NetWorking Capital
Increase in NetWorking Capital
None of the given options

80. Which of the following is measured by profit margin?
Select correct option:

Operating efficiency
Asset use efficiency
Financial policy
Dividend policy

81. Who of the following make a broader use of accounting information?
Select correct option:
Accountants

Financial Analysts
Auditors
Marketers

82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?
Select correct option:
Liquidity Ratios
Leverage Ratios
Profitability Ratios

Market Value Ratios

83. A company having a current ratio of 1 will have _____ net working capital.
Select correct option:

Positive
Negative
zero
None of the given options

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84. which of the following is not a form of business organization
Select correct option:
sole proprietorship
partnership
joint stock company

cooperative Society

85. Which of the following ratios are intended to address the firm's financial leverage?
Select correct option:
Liquidity Ratios

Long-term Solvency Ratios
Asset Management Ratios

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Profitability Ratios

86. The accounting definition of income is:

Select correct option:

Income = Current Assets - Current Liabilities

Income = Fixed Assets - Current Assets

Income = Revenues - Current Liabilities

Income = Revenues - Expenses

87. **Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**

Select correct option:

Depreciation

Interest

Expenses related to firm's financing of its assets

All of the given options

88. **Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**

Select correct option:

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Rs. 105,600

Rs. 148,500

Rs. 165,000

Rs. 225,000

Solution=250000*34%=85000

250,000-85000=165000

89. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**

Select correct option:

Debt securities or bonds lec 17

Common Stocks

Preferred Stock

All of the given options

90. In which type of market, used securities are traded?

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

91. Who of the following make a broader use of accounting information?

Select correct option:

Accountants

Financial Analysts lec 2

Auditors

Marketers

92. Which of the following is (are) a non-cash item(s) ?

Select correct option:

Revenue

Expenses

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Depreciation
All of the given options
93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?
Select correct option:
Rs. 100
Rs. 510
Rs. 1,000
Rs. 1,100
Solution:
=1000/10
=100
94. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period lec 28
Net Present Value
Average Accounting Return
None of the given options
95. Period costs include which of the following?
Select correct option:
Selling expense
Raw material
Direct labor
Manufacturing overhead
96. The value of net working capital will be greater than zero when:
Select correct option:
Current Assets > Current Liabilities
Current Assets < Current Liabilities
Current Assets = Current Liabilities
None of the given options
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97. **According to Du Pont Identity, ROE is affected by which of the following?**
Select correct option:
Operating efficiency
Asset use efficiency
Financial Leverage
All of the given options
98. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets
99. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity

Financing activity
None of the given options

100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level ofRs. 120,000?

Select correct option:
1.01
1.26
1.39
1.52
Solution= 700000/460000=1.52

101. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**

Select correct option:
Sole-proprietorship
General Partnership pg 6
Limited Partnerhsip
Corporation

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102. **A firm uses cash to purchase inventory, its current ratio will:**

Select correct option:
Increase
Decrease
Remain unaffected
Become zero

103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**

Select correct option:
Ordinary Annuity
Special Annuity
Annuity Due
Perpetuity

104. **Which of the following is an example of positive covenant?**

Select correct option:
Maintaining any collateral or security in good condition
Limiting the amount of dividend according to some formula
Restricting pledging assets to other lenders
Barring merger with another firm

105. **Which of the following refers to the difference between the sale price and cost of inventory?**

Select correct option:
Net loss
Net worth
Markup
Markdown

106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**

Select correct option:
Repayment
Seniority

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Call provision
Protective covenants
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107. **_____ shows the sources from which cash has been generated and how it has been spent during a period** of time?
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Owner's Equity Statement
108. **Which of the following is a cash flow from financing activity?**
Select correct option:
Cash outflowto the government for taxes
Cash outflow to shareholders as dividends
Cash outflowto lenders as interest
Cash outflowto purchase bonds issued by another company
109. **Which of the following form of business organization is least regulated?**
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation
110. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity
Present value of a lump sum
111. **Which of the following relationships holds TRUE if a bond sells at a discount?**
Select correct option:
Bond Price < Par Value and YTM > coupon rate
Bond Price > Par Value and YTM > coupon rate
Bond Price > Par Value and YTM < coupon rate
Bond Price < Par Value and YTM < coupon rate
112. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or** selling:
Select correct option:
Debt securities or bonds
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Common Stocks
Preferred Stock
All of the given options
113. Which of the following item provides the important function of shielding part of income from taxes?
Select correct option:
Inventory
Supplies
Machinery

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Depreciation

114. **A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be** the total worth of the firm's assets?
Select correct option:
Rs. 300,000
Rs. 500,000
Rs. 800,000
Rs. 1100,000
sol
Asset= liabilities+ capital so 300+500=800,000

115. **Which of the following forms of business organizations is created as a distinct legal entity owned** by one or more individuals or entities?
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation

116. in which form of Business, owners have limited libility.
Select correct option:
sole proprietorship
partnership
joint stock company
none of the above

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117. Which of the following equation is known as Cash Flow (CF) identity?
Select correct option:
CF from Assets = CF to Creditors - CF to Stockholder
CF from Assets = CF to Stockholders - CF to Creditors
CF to Stockholders = CF to Creditors + CF from Assets
CF from Assets = CF to Creditors + CF to Stockholder

118. **The difference between current assets and current liabilities is known as:**
Select correct option:
Surplus Asset
Short-term Ratio
Working Capital
Current Ratio

119. **A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount** of money the lender should lend?
Select correct option:
Rs. 14,186
Rs. 18,256
Rs. 22,697
Rs. 28,253
solution
40000*1/(1+0.12)^5=22697.07

120. **Which of the following statement is considered as the accountant's snapshot of firm's accounting** value as of a particular date?
Select correct option:
Income Statement

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Balance Sheet
Cash Flow Statement
Retained Earning Statement
121. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity
Present value of a lump sum
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122. **Which of the following statement about bond ratings is TRUE?**
Select correct option:
Bond ratings are typically paid for by a company's bondholders.
Bond ratings are based solely on information acquired from sources other than the bond issuer.
Bond ratings represent an independent assessment of the credit-worthiness of bonds.
None of the given options
123. **Which of the following is the acronym for GAAP?**
Select correct option:
Generally Applied Accountability Principles
General Accounting Assessment Principles
Generally Accepted Accounting Principles
General Accepted Assessment Principles
124. Which of the following is NOT an internal use of financial statements information?
Select correct option:
Planning for the future through historic information
Evaluation of performance through profit margin and return on equity
Evaluation of credit standing of new customer
None of the given options
125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.What is the** retention ratio for the firm?
Select correct option:
12 %
25 %
40%
60 %
Solution
Net income-dividend / net income *100
250000-150000/250000*100=40%
A company having a current ratio of 1 will have _____ net working capital. Select correct option:
Positive
Negative
zero
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None of the given options
126. **A portion of profits, which a company distributes among its Shareholders, is known as:**

Select correct option:
Dividends
Retained Earnings
Capital Gain
None of the given options
127. Which of the following is(are) the basic area(s) of Finance?
Select correct option:
Financial institutions
International finance
Investments
All of the given options
128. Which of the following ratios is NOT fromthe set of Asset Management Ratios?
Select correct option:
Inventory Turnover Ratio
Receivable Turnover
Capital Intensity Ratio
Return on Assets
129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**
Select correct option:
Rs. 1,000 because it has the higher future value
Rs. 1,000 because you receive it sooner
Rs. 1,050 because it is more money
Either because both options are of equal value
130. **Which of the following terms refers to the use of debt financing?**
Select correct option:
Operating Leverage
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Financial Leverage
Manufacturing Leverage
None of the given options
b
131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**
Select correct option:
8.42 years
10.51 years
15.75 years
18.78 years
6000(1+5%)^10.51=around 10,000
132. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets

133. **Which of the following is measured by retention ratio?**
Select correct option:
Operating efficiency
Asset use efficiency
Financial policy
Dividend policy
134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**
Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
Armaan: b

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135. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses
136. **An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?**
Select correct option:
Rs. 500
Rs. 752
Rs. 1,052
Rs. 1,100
4100-3000=1100
137. **What is the effective annual rate of 7 percent compounded monthly?**
Select correct option:
7.00 percent
7.12 percent
7.19 percent
7.23 percent
138. **Which of the following cash flow activities are reported in the Cash Flow Statement and** Income Statement?
Select correct option:
Operating Activities
Investing Activities
Financing Activities
All of the given options
139. **Which of the following term refers to establish of a standard to follow for comparison?**
Select correct option:
Benchmarking 48
Standardizing

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Comparison
Evaluation
140. **Which of the following is measured by profit margin?**
Select correct option:
Operating efficiency pg 44
Asset use efficiency
Financial policy
Dividend policy
141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following** range of discount rates?
Select correct option:
2%to 8%
4%to 25%
5% to 20%
10% to 50%
142. **Which of the following refers to a conflict of interest between principal and agent?**
Select correct option:
Management Conflict
Interest Conflict
Agency Problem
None of the given options
143. **Which of the following is a series of constant cash flows that occur at the end of each** period for some fixed number of periods?
Select correct option:
Ordinary annuity 63
Annuity due
Perpetuity
None of the given options
144. **Which of the following area of finance deals with stocks and bonds?**
Select correct option:
Financial institutions
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International finance
Investments
All of the given options
145. **7:03 AM** **Which of the following is NOT an external use of financial Statements** information?
Select correct option:
Evaluation of credit standing of new customer
Evaluation of financial worth of supplier
Evaluation of potential strength of the competitor
Evaluation of performance through profit margin and return on equity
146. Which of the following is(are) the basic area(s) of Finance?
Select correct option:
Financial institutions
International finance
Investments
All of the given options

147. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.** What is the profit margin?
Select correct option:
4.30%
6.00%
10.70%
16.73%
solution
Net income =ROA*total asset
Net income=8%*75000=6000
Profit margin=net income/ sales*100
Profit margin=6000/100000*100= 6%
148. Which of the following is the process of planning and managing a firm's long-term investments?
Select correct option:
Capital Structuring
Capital Rationing
Capital Budgeting
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Working Capital Management
149. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**
Select correct option:
Operating Cash Flows
Investing Cash Flows
Financing Cash Flows
All of the given options
150. **Quick Ratio is also known as:**
Select correct option:
Current Ratio
Acid-test Ratio
Cash Ratio
None of the given options
151. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?
Select correct option:
Sole-proprietorship
Partnership
Corporation
None of the given options
152. **If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be __ and __ respectively.**
Select correct option:
20%; 80%
37%; 63%
63%; 37%
80%; 20%
153. **When corporations borrow, they generally promise to: I.Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an**

ownership interest in the firm
Select correct option:
I and II
I and III
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II and IV
I, III, and IV
154. **Which of the following is NOT included in a bond indenture?**
Select correct option:
The basic terms of bond issue
The total amount of bonds issued
A personal profile of the issuer
A description of the security
155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**
Select correct option:
Rs. 6,302
Rs. 9,981
Rs. 14,800
Rs. 15,869
156. **Which of the following statement is TRUE regarding debt?**
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure.
Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.
157. **The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**
Select correct option:
5.00 percent
7.00 percent
8.45 percent
10.0 percent
158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?
Select correct option:
Ordinary Annuity
Special Annuity
AnnuityDue
Perpetuity
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159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**
Select correct option:
Rs. 150,000
Rs. 200,000
Rs. 250,000
Rs. 400,000
ROTA = N.P / Total Assets

4% = N.P / 500,000
4% * 500,000 = N.P
N.P = Rs. 20,000
N.P Margin = N.P / Sales
5% = 20,000 / Sales
5%* Sales = 20,000
Sales = 20,000 / 5%
Sales = 400,000
160. Which of the following rate makes the Net Present Value (NPV) equal to zero?
Select correct option:
Average Accounting Return (AAR)
Internal Rate of Return (IRR) pg 109
Required Rate of Return (RRR)
Weighted Average Cost of Capital (WACC)
161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**
Select correct option:
Current Yield
Yield ToMaturity
Coupon Yield
Capital Gains Yield
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162. **If a firm uses cash to purchase inventory, its quick ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero
163. **a firm uses cash to purchase inventory, its current ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero
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ACC 501 Solved MCQ'S For MID & Final Exam

1. Which of the following is an example of positive covenant?
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets wrong question option d is negative and all is positive example
Wrong, wrong, wrong question it is unfair discipline
2. AST Company's debt-to-total assets ratio is 0.45. What is its debt -to-equity

ratio?
Select correct option:
0.101
0.220
0.667
0.818
Reference:(1-0.45=0.55)
=0.45/0.55=0.818
3. What amount a borrower would pay at the end of fourth year with a 4-year, 12%, interest-only loan of Rs. 8,000?
Select correct option:
Rs. 1,360
Rs. 2,000
Rs. 5,625
Rs. 8,960
Reference: 8000*12/100=8960
4. What will be the price per share if there is a current dividend of Rs. 4.75, required rate of return of 12% and growth rate of 5%?
Select correct option:
Rs. 30.19
Rs. 43.52
Rs. 56.53
Rs. 71.25
Reference: D*1+g/r-g
4.75*(1+0.5/4.75-0.5)=71.25
5. **A given rate is quoted as 9 percent APR, but the EAR is 9.38 percent. What is the compounding period?**
Select correct option:
Semiannually
Quarterly
Monthly
Daily
Reference:(1+APR/m)^m-1
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APR=9
M=30
(1+9/30)^30-1=9.38
6. Mr. Aslam owns 100 shares of a company and there are four directors to be elected. How much votes Mr. Aslamwould have as per cumulative voting procedure?
Select correct option:
100 votes
200 votes
300 votes
400 votes
Reference: 100*4=400
7. **SNT Corporation has policy of paying a Rs. 6 per share dividend every year. If this policy is to continue indefinitely, what will be the value of a share of stock at a 15%required rate of return?**
Select correct option:

Rs. 30
Rs. 40
Rs. 50
Rs. 60
Reference: 6/0.15=40
8. **Which of the following process can be defined as the process of generating earnings from previous earnings?**
Select correct option:
Discounting
Compounding
Factorization
None of the given options
9. **Which of the following is the amount of cash we would get if we actually sell an asset?**
Select correct option:
Market Value
Book Value
Intrinsic Value
None of the given options
10.

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11. **Which of the following financial statement shows both dollars and percentages in the report?**
Select correct option:
Balance Sheet
Common-Size Statement
Income Statement
Relative Statement of Equity
12. **in which form of Business, owners have limited libility.**
Select correct option:
sole proprietorship
partnership
joint stock company
none of the above
13. **Suppose the initial investment for a project is Rs. 16 million and the cash flows are Rs. 4 million in the first year and Rs. 9 million in the second and Rs. 5 million in the third. The project will have a payback period of:**
Select correct option:
2.6 Years
3.1 Years
3.7 Years
4.1 Years
14. Which of the following is NOT a shortcoming of Payback Rule?
Select correct option:
Time value of money is ignored
It fails to consider risk differences
Simple and easy to calculate
None of the given options pg 106
15. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing** or selling:

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Select correct option:

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Debt securities or bonds pg 71

Common Stocks

Preferred Stock

All of the given options

16. **Treasury notes and bonds are examples of which of the following types of bonds?**

Select correct option:

Government bonds 85

Zero coupon bonds

Floating-rate bonds

Euro bonds

17. **When real rate is _____, all interest rates will tend to be _____.**

Select correct option:

Low; higher

High; lower

High; higher pg 88

None of the given options

18. Which of the following statements is(are) CORRECT regarding a bond?

Select correct option:

A bond is an evidence of debt issued by a corporation or a governmental body. A bond represents a loan made by investors to the issuer.

When a corporation wishes to borrow from public on a long term basis, it does so by issuing or selling bonds.

All of the given options

19. **Between the two identical bonds having different coupon, the price of the _____ bond will change less than that of _____ bond.**

Select correct option:

Higher-coupon; lower-coupon

Lower-coupon; higher-coupon

Long-term; short-term

None of the given options

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20. **As the dividend is always same for a zero growth stock, so the stock can also be viewed as:**

Select correct option:

Ordinary Annuity

Annuity Due

Ordinary perpetuity pg 91

None of the given options

21. **The coupon rate of a floating-rate bond is capped and upper and lower rates are called:**

Select correct option:

Float

Collar pg 86

Limit

Surplus

22. Internal Rate of Return (IRR) is sometimes referred to as:

Select correct option:

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Simple Interest Rate
Compound Interest Rate
Economic Rate of Return
Required Rate of Return

23. If the dividend for a share is growing at a steady rate then which of the following formula(s) can be used to find the dividend in two periods?
Select correct option:
D2 = D1 x (1 + g)
D2 = Do x (1 + g)2
D2 = Do x (1 + g)2
All of the given options pg 92

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24. **A project whose acceptance does not prevent or require the acceptance of one or more alternative** projects is referred to as a(n):
Select correct option:
mutually exclusive project
independent project
dependent project
contingent project

25. A project has an initial investment of Rs. 600,000. What would be the NPV for the project if it has a profitability index of 1.12?
Select correct option:
Rs. 40,000
Rs. 55,000
Rs. 65,000
Rs. 72,000
Reference=600000*1.12=672000-600000=72000

26. Which of the following statement is TRUE regarding debt?
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure. Pg 78
Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.

27. If a firm is allowed to miss a coupon payment on a bond in a year in which it reports an operating loss, the bond is most likely a(n) _____ bond.
Select correct option:
Income
Zero coupon
Floating-rate
Put

28. A _____ covenant limits or prohibits actions that company might take.

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Select correct option:
Positive
Negative pg 80
Neutral
None of the given options

29. IRR and NPV rules always lead to identical decisions as long as:
Select correct option:
Cash flow s are conventional

Cash flow s are independent
Cash flow s are both conventional and independent pg 110
None of the given options
30. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**
Select correct option:
Repayment
Seniority
Call provision
Protective covenants
31. **Which of the following is NOT a quality of IRR?**
Select correct option:
Most widely used
Ideal to rank the mutually exclusive investments pg 116
Easily communicated and understood
Can be estimated even without knowing the discount rate
32. **In which type of the market, previously issued securities are traded among investors?**
Select correct option:
Primary Market
Secondary Market pg 100
TertiaryMarket
None of the given options
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33. **A model which makes an assumption about the future growth of dividends is known as:**
Select correct option:
Dividend Price Model
Dividend GrowthModel
Dividend PolicyModel
All of the given options
34. **Which of the following represents the linear relation between Net Present Value (NPV) and Profitability Index (PI)?**
Select correct option:
If Profitability Index > 1, NPV is Negative (-)
If Profitability Index < 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Positive (+)
If Profitability Index > 1, NPV is Zero (0)
35. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period
Net Present Value pg 118
AverageAccounting Return
36.
Which of the following is NOT included in discounted cash flow criteria for capital budgeting decision?
Select correct option:
Payback Period pg 119
Net Present Value

Profitability Index
Internal Rate of Return
37. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining any collateral or security in good condition
Limiting the amount of dividend according to some formula
Restricting pledging assets to other lenders
Barring merger with another firm
38. **Which of the following is the most common capital budgeting technique?**
Select correct option:
Payback Period
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Net Present Value
Internal Rate of Return
Profitability Index
39. Which of the following measures the present value of an investment per dollar invested?
Select correct option:
Net Present Value (NPV)
Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI) pg 119
40. Which of the following is a measure of accounting profit relative to the book value?
Select correct option:
Net Present Value
Profitability Index
Internal Rate of Return
Average Accounting Return pg 119
41. **Which one of the following typically applies to preferred stock but not to common stock?**
Select correct option:
Dividend yield
Cumulative dividends
Voting rights
Tax deductible dividends
42. **Treasury notes and bonds are examples of which of the following types of bonds?**
Select correct option:
Government bonds pg 86
Zero coupon bonds
Floating-rate bonds
Euro bonds
43. **Expectation of a ____ inflation rate will push long term interest rates ____ than short term rates reflected by an upward term structure.**
Select correct option:
Lower; higher
Higher; lower
Higher; higher pg 88
None of the given options

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44. A company issues bonds with a Rs. 1,000 face value. What is the coupon rate if the coupon payments of Rs. 60 are paid every 6months?

Select correct option:

3 percent

6 percent

9 percent

12 percent

60+60=120/1000=12%

45. **The projected cash flows from a project are: Year 1: Rs. 100 Year 2: Rs. 300 Year 3: Rs. 400 Year 4: Rs. 800 The Project cost is Rs. 800. What would be the payback period for the project?**

Select correct option:

2.00 Years

2.67 Years

3.00 Years

3.67 Years

Project=800 paid in 1 year=100, 2nd year=300 and 3rd year=400 total 800 paid in 3rd year

In which of the following type of annuity, cash flows occur at the beginning of each period?

Select correct option:

Ordinary annuity

Annuity due pg 66

Perpetuity

None of the given options

46. **Which of the following is NOT an important feature of treasury notes and bonds?**

Select correct option:

Default free

Taxable

Least liquid pg 90

Highly liquid

Which of the following is NOT a determinant of term structure?

Select correct option:

Real rate of interest

Internal rate of interest pg 88

Expected inflation

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Interest rate risk

47. **Which of the following is the amount of time required for an investment to generate cash flows sufficient to recover its initial cost?**

Select correct option:

Yield to maturity

Maturity Period

Payback period pg 104

Accounts Receivable period

m.q .z

48. **In which type of the market, securities are originally sold to the investors?**

Select correct option:

PrimaryMarket
SecondaryMarket
TertiaryMarket
None of the given options
49. **A _____ is an agent who arranges security transactions among investors.**
Select correct option:
Broker pg 100
Dealer
Member
Specialist
volatile
50. **Which of the following is a characteristic of preferred stock?**
Select correct option:
These stocks have not stated liquidating value
Dividends on these stocks can be cumulative pg 100
These bonds hold credit ratings quite different from bonds
These stocks have not any kind of priority over common stocks
51. **Which of the following type of bond pays no coupon at all and are offered at a price that is much lower than its stated value?**
Select correct option:
Government bonds
Zero coupon bonds pg 85
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Floating-rate bonds
Euro bonds
52. An investment will be _____ if the IRR doesn't exceeds the required return and _____ otherwise.
Select correct option:
Accepted; rejected
Accepted; accepted
Rejected; rejected
Rejected; accepted pg 109 conceptual
53. Which of the following comes under the head of accounting criteria for capital budgeting decision?
Select correct option:
Payback Period
Net Present Value
Profitability Index
Average Accounting Return pg 119
54. **Which of the following is a series of constant cash flows that occur at the end of each period for some fixed number of periods?**
Select correct option:
Ordinary annuity pg 63
Annuity due
Perpetuity
None of the given options
55. **Which of the following term refers to the difference between the present value of cash inflows and the present value of cash outflows?**
Select correct option:
Net Present Value (NPV)

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Average Accounting Return (AAR)
Internal Rate of Return (IRR)
Profitability Index (PI)
56. **One would be indifferent between taking and not taking the investment when:**
Select correct option:
NPV is greater than Zero
NPV is equal to Zero pg 104 doubt ask question in mdb
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NPV is less than Zero
All of the given options
57. **Which one of the following terms refers to the risk arises for bond owners from fluctuating interest** rates?
Select correct option:
Fluctuations Risk
Interest Rate Risk pg75
Real-Time Risk
Inflation Risk
58. All else equal, the market value of a corporate bond is always inversely related to its:
Select correct option:
Time to maturity
Coupon rate
Yield to maturity
All of the given options
59. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance
Associated risks and rewards
Pricing financial assets
60. **Period costs include which of the following?**
Select correct option:
Selling expense
Raw material
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Direct labor
Manufacturing overhead
61. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses
62. **Financial policy is evaluated by which of the following?**
Select correct option:
Profit Margin
Total Assets Turnover
Debt-equity ratio

None of the given options

63. Cash flow from assets involves which of the following component(s)?

Select correct option:

Operating cash flow

Capital spending

Change in net working capital

All of the given options

64. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

65. Finance is vital for which of the following business activity (activities)?

Select correct option:

Marketing Research

Product Pricing

Design of marketing and distribution channels

All of the given options

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66. **Which of the following costs are reported on the income statement as the cost of goods** sold?

Select correct option:

Product cost

Period cost

Both product cost and period cost

Neither product cost nor period cost

67. Standard Company had net sales of Rs. 750,000 over the past year. During that time, average receivables were Rs. 150,000. Assuming a 365-day year, what was the average collection period?

Select correct option:

5 days

36 days

48 days

73 days

750000/150000=5

365/5=73days

68. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

Financial Leverage

Manufacturing Leverage

None of the given options

69. **In which type of market, new securities are traded?**

Select correct option:

Primary market

Secondary market

Tertiary market

None of the given options

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70. **Which of the following ratios are particularly interesting to short-term creditors?**
Select correct option:
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Liquidity Ratios
Long-term Solvency Ratios
Profitability Ratios
Market Value Ratios
71. **shows the sources from which cash has been generated and how it has been spent during a period of time?**
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Owner's Equity Statement
72. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity
Financing activity
None of the given options
73. **me: Quick Ratio is also known as:**
Select correct option:
Current Ratio
Acid-test Ratio
Cash Ratio
74. **of the following statement measures performance over a specific period of time?**
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Retained Earning Statement
75. **Which of the following statement shows assets, liabilities, and net worth as of a specific** date?
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Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
76. A portion of profits, which a company retains itself for further expansion, is known as:
Select correct option:
Dividends
Retained Earnings
Capital Gain
None of the given options
77. Which one of the following is NOT a liquidity ratio?

Select correct option:
Current Ratio
Quick Ratio
Cash Coverage Ratio
Cash Ratio

78. Which of the following ratio gives an idea as to how efficient management is at using its assets to generate earnings?
Select correct option:
Profit Margin
Return on Assets
Return on Equity
Total Assets Turnover

79. Which of the following is an example of capital spending?
Select correct option:

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Purchase of Fixed Assets
Decrease in NetWorking Capital
Increase in NetWorking Capital
None of the given options

80. Which of the following is measured by profit margin?
Select correct option:
Operating efficiency
Asset use efficiency
Financial policy
Dividend policy

81. Who of the following make a broader use of accounting information?
Select correct option:
Accountants
Financial Analysts
Auditors
Marketers

82. Which of the following set of ratios is used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time?
Select correct option:
Liquidity Ratios
Leverage Ratios
Profitability Ratios
Market Value Ratios

83. A company having a current ratio of 1 will have _____ net working capital.
Select correct option:
Positive
Negative
zero
None of the given options

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84. which of the following is not a form of business organization
Select correct option:
sole proprietorship

partnership
joint stock company
cooperative Society
85. Which of the following ratios are intended to address the firm's financial leverage?
Select correct option:
Liquidity Ratios
Long-term Solvency Ratios
Asset Management Ratios
Profitability Ratios
86. The accounting definition of income is:
Select correct option:
Income = Current Assets - Current Liabilities
Income = Fixed Assets - Current Assets
Income = Revenues - Current Liabilities
Income = Revenues - Expenses
87. **Which of the following item(s) is(are) not included while calculating Operating Cash Flows?**
Select correct option:
Depreciation
Interest
Expenses related to firm's financing of its assets
All of the given options
88. **Suppose market value exceeds book value by Rs. 250,000. What will be the after-tax proceeds if there is a tax rate of 34 percent ?**
Select correct option:
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Rs. 105,600
Rs. 148,500
Rs. 165,000
Rs. 225,000
Solution=250000*34%=85000
250,000-85000=165000
89. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or selling:**
Select correct option:
Debt securities or bonds lec 17
Common Stocks
Preferred Stock
All of the given options
90. In which type of market, used securities are traded?
Select correct option:
Primary market
Secondary market
Tertiary market
None of the given options
91. Who of the following make a broader use of accounting information?
Select correct option:
Accountants
Financial Analysts lec 2

Auditors
Marketers
92. Which of the following is (are) a non-cash item(s) ?
Select correct option:
Revenue
Expenses
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Depreciation
All of the given options
93. What will be the coupon value of a Rs. 1,000 face-value bond with a 10% coupon rate?
Select correct option:
Rs. 100
Rs. 510
Rs. 1,000
Rs. 1,100
Solution:
=1000/10
=100
94. **Which of the following comes under the head of discounted cash flow criteria for capital budgeting decisions?**
Select correct option:
Payback Period lec 28
Net Present Value
Average Accounting Return
None of the given options
95. Period costs include which of the following?
Select correct option:
Selling expense
Raw material
Direct labor
Manufacturing overhead
96. The value of net working capital will be greater than zero when:
Select correct option:
Current Assets > Current Liabilities
Current Assets < Current Liabilities
Current Assets = Current Liabilities
None of the given options
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97. **According to Du Pont Identity, ROE is affected by which of the following?**
Select correct option:
Operating efficiency
Asset use efficiency
Financial Leverage
All of the given options
98. **Which of the following issue is NOT covered by "Investment" area of finance?**
Select correct option:
Best mixture of financial investment
International aspects of corporate finance

Associated risks and rewards
Pricing financial assets
99. **Standard Corporation sold fully depreciated equipment for Rs. 5,000. This transaction will be reported on the cash flow statement as a(n):**
Select correct option:
Operating activity
Investing activity
Financing activity
None of the given options
100. Balance sheet for a company reports current assets of Rs. 700,000 and current liabilities of Rs. 460,000. What would be the Current Ratio for the company if there is an inventory level ofRs. 120,000?
Select correct option:
1.01
1.26
1.39
1.52
Solution= 700000/460000=1.52
101. **In which type of business, all owners share in gains and losses and all have unlimited liability for all business debts?**
Select correct option:
Sole-proprietorship
General Partnership pg 6
Limited Partnerhsip
Corporation

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102. **a firm uses cash to purchase inventory, its current ratio will:**
Select correct option:
Increase
Decrease
Remain unaffected
Become zero
103. **Which of the following is a special case of annuity, where the stream of cash flows continues forever?**
Select correct option:
Ordinary Annuity
Special Annuity
Annuity Due
Perpetuity
104. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining any collateral or security in good condition
Limiting the amount of dividend according to some formula
Restricting pledging assets to other lenders
Barring merger with another firm
105. **Which of the following refers to the difference between the sale price and cost of inventory?**
Select correct option:
Net loss
Net worth

Markup
Markdown
106. **Which of the following allows a company to repurchase part or all of the bond issue at a stated price?**
Select correct option:
Repayment
Seniority
Call provision
Protective covenants
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107. **_____ shows the sources from which cash has been generated and how it has been spent during a period** of time?
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Owner's Equity Statement
108. **Which of the following is a cash flow from financing activity?**
Select correct option:
Cash outflowto the government for taxes
Cash outflow to shareholders as dividends
Cash outflowto lenders as interest
Cash outflowto purchase bonds issued by another company
109. **Which of the following form of business organization is least regulated?**
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation
110. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity
Present value of a lump sum
111. **Which of the following relationships holds TRUE if a bond sells at a discount?**
Select correct option:
Bond Price < Par Value and YTM > coupon rate
Bond Price > Par Value and YTM > coupon rate
Bond Price > Par Value and YTM < coupon rate
Bond Price < Par Value and YTM < coupon rate
112. **When a corporation wishes to borrow from public on a long-term basis, it does so by issuing or** selling:
Select correct option:
Debt securities or bonds
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Common Stocks
Preferred Stock
All of the given options

113. Which of the following item provides the important function of shielding part of income from taxes?
Select correct option:
Inventory
Supplies
Machinery
Depreciation

114. **A firm reports total liabilities of Rs. 300,000 and owner's equity of Rs. 500,000. What would be** the total worth of the firm's assets?
Select correct option:
Rs. 300,000
Rs. 500,000
Rs. 800,000
Rs. 1100,000
sol
Asset= liabilities+ capital so 300+500=800,000

115. **Which of the following forms of business organizations is created as a distinct legal entity owned** by one or more individuals or entities?
Select correct option:
Sole-proprietorship
General Partnership
Limited Partnership
Corporation

116. in which form of Business, owners have limited libility.
Select correct option:
sole proprietorship
partnership
joint stock company
none of the above

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117. Which of the following equation is known as Cash Flow (CF) identity?
Select correct option:
CF from Assets = CF to Creditors - CF to Stockholder
CF from Assets = CF to Stockholders - CF to Creditors
CF to Stockholders = CF to Creditors + CF from Assets
CF from Assets = CF to Creditors + CF to Stockholder

118. **The difference between current assets and current liabilities is known as:**
Select correct option:
Surplus Asset
Short-term Ratio
Working Capital
Current Ratio

119. **A borrower is able to pay Rs. 40,000 in 5 years. Given a discount rate of 12 percent, what amount** of money the lender should lend?
Select correct option:
Rs. 14,186

Rs. 18,256
Rs. 22,697
Rs. 28,253
solution
40000*1/(1+0.12)^5=22697.07
120. **Which of the following statement is considered as the accountant's snapshot of firm's accounting** value as of a particular date?
Select correct option:
Income Statement
Balance Sheet
Cash Flow Statement
Retained Earning Statement
121. **The principal amount of a bond at issue is called:**
Select correct option:
Par value
Coupon value
Present value of an annuity
Present value of a lump sum

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122. **Which of the following statement about bond ratings is TRUE?**
Select correct option:
Bond ratings are typically paid for by a company's bondholders.
Bond ratings are based solely on information acquired from sources other than the bond issuer.
Bond ratings represent an independent assessment of the credit-worthiness of bonds.
None of the given options
123. **Which of the following is the acronym for GAAP?**
Select correct option:
Generally Applied Accountability Principles
General Accounting Assessment Principles
Generally Accepted Accounting Principles
General Accepted Assessment Principles
124. Which of the following is NOT an internal use of financial statements information?
Select correct option:
Planning for the future through historic information
Evaluation of performance through profit margin and return on equity
Evaluation of credit standing of new customer
None of the given options
125. **A firm has paid out Rs. 150,000 as dividends from its net income of Rs. 250,000.What is the** retention ratio for the firm?
Select correct option:
12 %
25 %
40%
60 %
Solution
Net income-dividend / net income *100
250000-150000/250000*100=40%

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A company having a current ratio of 1 will have _____ net working capital. Select correct option:

Positive

Negative

zero

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None of the given options

126. **A portion of profits, which a company distributes among its shareholders, is known as:**

Select correct option:

Dividends

Retained Earnings

Capital Gain

None of the given options

127. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

All of the given options

128. Which of the following ratios is NOT fromthe set of Asset Management Ratios?

Select correct option:

Inventory Turnover Ratio

Receivable Turnover

Capital Intensity Ratio

Return on Assets

129. **You just won a prize, you can either receive Rs. 1000 today or Rs. 1,050 in one year. Which option do you prefer and why if you can earn 5 percent on your money?**

Select correct option:

Rs. 1,000 because it has the higher future value

Rs. 1,000 because you receive it sooner

Rs. 1,050 because it is more money

Either because both options are of equal value

130. **Which of the following terms refers to the use of debt financing?**

Select correct option:

Operating Leverage

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Financial Leverage

Manufacturing Leverage

None of the given options

b

131. **You need Rs. 10,000 to buy a new television. If you have Rs. 6,000 to invest at 5 percent compounded annually, how long will you have to wait to buy the television?**

Select correct option:

8.42 years

10.51 years

15.75 years

18.78 years
6000(1+5%)^10.51=around 10,000
132. **Which of the following is an example of positive covenant?**
Select correct option:
Maintaining firm's working capital at or above some specified minimum level
Furnishing audited financial statements periodically to the lender
Maintaining any collateral or security in good condition
Restricting selling or leasing assets
133. Which of the following is measured by retention ratio?
Select correct option:
Operating efficiency
Asset use efficiency
Financial policy
Dividend policy
134. **Which of the following statement shows assets, liabilities, and net worth as of a specific date?**
Select correct option:
Income Statement
Balance Sheet
Owner's Equity Statement
Cash Flow Statement
Armaan: b
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135. **Product costs include which of the following?**
Select correct option:
Selling expenses
General expenses
Manufacturing overhead
Administrative expenses
136. An account was opened with an investment of Rs. 3,000 ten years ago. The ending balance in the account is Rs. 4,100. If interest was compounded, how much compounded interest was earned?
Select correct option:
Rs. 500
Rs. 752
Rs. 1,052
Rs. 1,100
4100-3000=1100
137. **What is the effective annual rate of 7 percent compounded monthly?**
Select correct option:
7.00 percent
7.12 percent
7.19 percent
7.23 percent
138. **Which of the following cash flow activities are reported in the Cash Flow Statement and** Income Statement?
Select correct option:
Operating Activities
Investing Activities

Financing Activities
All of the given options
139. **Which of the following term refers to establish of a standard to follow for comparison?**
Select correct option:
Benchmarking 48
Standardizing
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Comparison
Evaluation
140. **Which of the following is measured by profit margin?**
Select correct option:
Operating efficiency pg 44
Asset use efficiency
Financial policy
Dividend policy
141. **Rule of 72 for finding the number of periods is fairly applicable to which of the following** range of discount rates?
Select correct option:
2%to 8%
4%to 25%
5% to 20%
10% to 50%
142. **Which of the following refers to a conflict of interest between principal and agent?**
Select correct option:
Management Conflict
Interest Conflict
Agency Problem
None of the given options
143. **Which of the following is a series of constant cash flows that occur at the end of each** period for some fixed number of periods?
Select correct option:
Ordinary annuity 63
Annuity due
Perpetuity
None of the given options
144. **Which of the following area of finance deals with stocks and bonds?**
Select correct option:
Financial institutions
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International finance
Investments
All of the given options
145. **7:03 AM** **Which of the following is NOT an external use of financial statements** information?
Select correct option:
Evaluation of credit standing of new customer
Evaluation of financial worth of supplier
Evaluation of potential strength of the competitor

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Evaluation of performance through profit margin and return on equity

146. Which of the following is(are) the basic area(s) of Finance?

Select correct option:

Financial institutions

International finance

Investments

All of the given options

147. **If a firm has a ROA of 8 percent, sales of Rs. 100,000, and total assets of Rs. 75,000.** What is the profit margin?

Select correct option:

4.30%

6.00%

10.70%

16.73%

solution

Net income =ROA*total asset

Net income=8%*75000=6000

Profit margin=net income/ sales*100

Profit margin=6000/100000*100= 6%

148. Which of the following is the process of planning and managing a firm's long-term investments?

Select correct option:

Capital Structuring

Capital Rationing

Capital Budgeting

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Working Capital Management

149. **Which of the following refers to the cash flows that result from the firm's day-to-day activities of producing and selling?**

Select correct option:

Operating Cash Flows

Investing Cash Flows

Financing Cash Flows

All of the given options

150. **Quick Ratio is also known as:**

Select correct option:

Current Ratio

Acid-test Ratio

Cash Ratio

None of the given options

151. Mr. Y and Mr. Z are planning to share their capital to run a business. They are going to employ which of the following type of business?

Select correct option:

Sole-proprietorship

Partnership

Corporation

None of the given options

152. **If you have Rs. 30 in asset A and Rs. 120 in another asset B, the weights for assets A and B will be __ and __ respectively.**

Select correct option:

20%; 80%
37%; 63%
63%; 37%
80%; 20%
153. **When corporations borrow, they generally promise to: I.Make regular scheduled interest payments II. Give the right of voting to bondholders III. Repay the original amount borrowed (principal) IV. Give an ownership interest in the firm**
Select correct option:
I and II
I and III
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II and IV
I, III, and IV
154. **Which of the following is NOT included in a bond indenture?**
Select correct option:
The basic terms of bond issue
The total amount of bonds issued
A personal profile of the issuer
A description of the security
155. **What would be the present value of Rs. 10,000 to be received after 6 years at a discount rate of 8 percent?**
Select correct option:
Rs. 6,302
Rs. 9,981
Rs. 14,800
Rs. 15,869
156. **Which of the following statement is TRUE regarding debt?**
Select correct option:
Debt is an ownership interest in the firm.
Unpaid debt can result in bankruptcy or financial failure.
Debt provides the voting rights to the bondholders.
Corporation's payment of interest on debt is fully taxable.
157. **The preferred stock of a company currently sells for Rs. 25 per share. The annual dividend of Rs. 2.50 is fixed. Assuming a constant dividend forever, what is the rate of return on this stock?**
Select correct option:
5.00 percent
7.00 percent
8.45 percent
10.0 percent
158. Which of the following is a special case of annuity, where the stream of cash flows continues forever?
Select correct option:
Ordinary Annuity
Special Annuity
AnnuityDue
Perpetuity
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159. **JJ Inc. has a 4 percent return on total assets of Rs. 500,000 and a net profit margin of 5 percent. Total sales for JJ Inc. would be :**
Select correct option:
Rs. 150,000
Rs. 200,000
Rs. 250,000
Rs. 400,000
ROTA = N.P / Total Assets
4% = N.P / 500,000
4% * 500,000 = N.P
N.P = Rs. 20,000
N.P Margin = N.P / Sales
5% = 20,000 / Sales
5%* Sales = 20,000
Sales = 20,000 / 5%
Sales = 400,000

160. Which of the following rate makes the Net Present Value (NPV) equal to zero?
Select correct option:
Average Accounting Return (AAR)
Internal Rate of Return (IRR) pg 109
Required Rate of Return (RRR)
Weighted Average Cost of Capital (WACC)

161. **Which of the following is the expected rate of return on a bond if bought at its current market price and held to maturity**
Select correct option:
Current Yield
Yield ToMaturity
Coupon Yield
Capital Gains Yield

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162. **If a firm uses cash to purchase inventory, its quick ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero

163. **a firm uses cash to purchase inventory, its current ratio will:**Select correct option:
Increase
Decrease
Remain unaffected
Become zero

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