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(Final Term Past Paper)

MADE AND SOLVED BY TEAM HADI

WARNING: Team HADI is not responsible for any mistake or wrong answer. All students reading and using this document may check and confirm the answers at their own.



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Best of luck!



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Examination VU Examination System (...)

MGT201 Financial Management BC090201047 (MUHAMMAD ASIF)

Question No : 1 of 60 Marks: 1 (Budgeted Time 1 Min)

In case of mutually exclusive projects, if two projects are of equal size and have the same life, then:

Answer (Please select your correct option)

- ☐ NPV and MIRR will create the conflict
- ☐ NPV and MIRR will lead to the same decision
- ☐ NPV will give the best solution
- ☐ MIRR will give the best solution

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Examination

VU Examination System (...)

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 2 of 60

Marks: 1 (Budgeted Time 1 Min)

Which type of long-term financing most likely has the following features: 1) it has an infinite life, 2) it pays dividends, and 3) its cash flows are expected to be a constant annuity stream?

Answer (Please select your correct option)

☐ Long-term debt

☐ Short term debt

☒ Preferred stock

☐ Common stock

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MGT201 Financial Management

Question No : 3 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following has NO effect when the financial health (cash flows and income) of the company changes with time?

Answer (Please select your correct option)

☒ Market value ✓

☐ Price of the share

☐ Par value

☐ None of the given options

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Question No : 4 of 60 Marks: 1 (Budgeted Time 1 Min)

Capital budgeting is a decentralized function assigned to:

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Answer (Please select your correct option)

☐ Individuals

☐ Departments

☐ Teams

☒ All of the given options ✓

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Question No : 5 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following best describes the statement, "The value of an asset is preserved regardless of the nature of the claims against it"?

Answer (Please select your correct option)

☐ Law of diminishing marginal returns

☒ Law of conservation of value ✓

☐ Law of return on equity

☐ Law of return on assets

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Question No : 6 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

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

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Question No : 7 of 60 Marks: 1 (Budgeted Time 1 Min)

When a firm can acquire another firm?

Answer (Please select your correct option)

- ☐ Only by purchasing the assets of the target firm
- ☐ Only by purchasing the common stock of the target firm
- ☒ By either purchasing the assets or the common equity of the target firm ✓
- ☐ None of the given options

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MGT201 Financial Management

Question No : 8 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following statements is most correct as it relates to the recording of a capital lease?

Answer (Please select your correct option)

☐ The capital lease is shown on the lessee's balance sheet as an asset and amortized over the asset's useful life.

☐ The capital lease is listed as an asset on the lessor's balance sheet and amortized over lease term. ✓

☐ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the lease period.

☐ A capital lease is listed as an asset on the lessee's balance sheet and must be amortized over the asset's useful life.

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MGT201 Financial Management

Question No : 9 of 60 Marks: 1 (Budgeted Time 1 Min)

When the manager of a firm uses capital structure changes to convey information about the profitability and risk of the firm, what the manager is actually doing?

check please

Answer (Please select your correct option)

☐ Financial signaling

☐ Informational symmetry

☐ The net operating income approach to capital structure

☐ The traditional approach to capital structure

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Tools

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MGT201 Financial Management

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Question No : 10 of 60

Marks: 1 (Budgeted Time 1 Min)

High Tech Chip Company is expected to have EPS in the coming year of Rs. 2.50. The expected ROE is 12.5%. An appropriate required return on the stock is 11%. If the firm has a plowback ratio of 70%, what would be the growth rate of dividends?

Answer (Please select your correct option)

☐ 6.25%

☐ 6.60%

☐ 7.50%

☐ 8.75%

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Question No : 11 of 60 Marks: 1 (Budgeted Time 1 Min)

If Share A's Beta = +2.0 then it represents which of the following?

Answer (Please select your correct option)

- ☒ Share is twice as risky (or volatile) as the KSE market
- ☐ Share is exactly as risky (or volatile) as the KSE market
- ☐ Share is half as risky (or volatile) as the KSE market
- ☐ Share would be exactly as volatile as the KSE market BUT in the opposite way

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Question No : 12 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is true about the security market line (SML) derived from the Arbitrage pricing model?

Answer (Please select your correct option)

- ☐ The benchmark portfolio for the Security market line may be any well-diversified portfolio
- ☒ The Security market line for the Arbitrage pricing model has an intercept equal to the expected return on the market portfolio ✓
- ☐ The Security market line for the Arbitrage pricing model shows expected return in relation to portfolio standard deviation
- ☐ The Security market line has a downward slope

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Examination

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Page

Safety

Tools

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MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 13 of 60

Marks: 1 (Budgeted Time 1 Min)

Which of the following is the criterion of rejection for an all-equity financed firm when expected rate of return is plotted on graph?

Answer (Please select your correct option)

☐ Above the characteristic line

☐ Above the security market line

☐ Below the security market line

☐ Below the characteristic line

check

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MGT201 Financial Management

Question No : 14 of 60 Marks: 1 (Budgeted Time 1 Min)

Beta coefficient is actually the slope of the line that shows the relationship between which of the following?

Answer (Please select your correct option)

- ☐ Stock required rate of return on x-axis and market rate of return on y-axis
- ☐ Stock required rate of return on y-axis and market rate of return on x-axis
- ☒ Stock expected rate of return on y-axis and market rate of return on x-axis
- ☐ Stock required rate of return on y-axis and stock expected rate of return on x-axis

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Question No : 15 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is/are ideal source(s) of capital for profitable firms because of no transaction costs?

Answer (Please select your correct option)

☐ Sizeable Cash

☐ Retained Earnings

☒ Both Sizeable Cash and Retained Earnings

☐ None of the given options

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MGT201 Financial Management

Question No : 16 of 60 Marks: 1 (Budgeted Time 1 Min)

According to Traditionalist Theory, when a 100% Equity Firm takes on more and more debt, which of the following phenomenon is observed?

due to more and more debt

Answer (Please select your correct option)

☐ Share Price first falls, then reaches minimum and finally rises

☐ Share Price first rises, then reaches minimum and finally falls

☒ Share Price first rises, then reaches maximum and finally falls ✓

☐ None of the given options

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Question No : 17 of 60 Marks: 1 (Budgeted Time 1 Min)

In the WACC equation ($r_{XD} + r_{XE} + r_{XP}$), r_{XP} represents which of the following?

Answer (Please select your correct option)

- ☐ Weight or Fraction of Total Capital value raised from common stock
- ☐ Weight or Fraction of Total Capital value raised from bonds
- ☒ Weight or Fraction of Total Capital value raised from preferred stock
- ☐ Weight or Fraction of Total Capital value raised from retained earnings

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MGT201 Financial Management

Question No : 18 of 60 Marks: 1 (Budgeted Time 1 Min)

High uncertainty is associated with which of the following?

Answer (Please select your correct option)

☐ Preferred stock

☒ Common stock

☐ Bonds

☐ T -Bills

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Question No : 19 of 60 Marks: 1 (Budgeted Time 1 Min)

On declaration date of dividend, if ABC Company announces dividend higher than the previous years, which of the following phenomenon is likely to be observe?

Answer (Please select your correct option)

☐ Stock price falls

☒ Stock price rises

☐ Stock price remains the same

☐ None of the given options

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MGT201 Financial Management

Question No : 20 of 60 Marks: 1 (Budgeted Time 1 Min)

When $IRR < WACC$ it means that:

Answer (Please select your correct option)

- ☐ Investment is acceptable as required rate of return is less then cost of capital
- ☒ Investment is not acceptable as required rate of return is less then cost of capital
- ☐ Investment is acceptable as required rate of return is equal to the cost of capital
- ☐ None of the given options is true

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Question No : 21 of 60 Marks: 1 (Budgeted Time 1 Min)

Risk of all assets and operations is called:

Answer (Please select your correct option)

☐ Financial risk

☒ Business risk

☐ Diversifiable risk

☐ Not diversifiable risk

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Question No : 22 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following current asset investment policy leads firm to maintain small amount of current assets?

Answer (Please select your correct option)

- ☐ Fat cat working capital policy
- ☒ Lean & Mean working capital policy
- ☐ Moderate working capital policy
- ☐ All of the given options

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Question No : 23 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following states that "Cash is King and only Cash can pay the bills"?

Answer (Please select your correct option)

☐ Fat cat working capital policy

☐ Lean & Mean perspective

☒ Balance Sheet Perspective

☐ Moderate working capital policy

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Examination VU Examination System (...)

BC090201047 (MUHAMMAD ASIF)

MGT201 Financial Management

Question No : 24 of 60 Marks: 1 (Budgeted Time 1 Min)

Un-leveraged capital structure is suitable for which kind of companies?

Answer (Please select your correct option)

- ☐ For co-operative societies
- ☐ For large companies who are earning high volume of sales revenue
- ☐ For medium companies whose sales are average
- ☒ For small companies whose sales are low

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BC090201047 (MUHAMMAD ASIF)

MGT201 Financial Management

Question No : 25 of 60 Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

- ☐ Financing short-term needs with short-term funds
- ☐ Financing short-term needs with long-term debt
- ☐ Financing seasonal needs with long-term funds
- ☐ Financing some long-term needs with short-term funds

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MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 26 of 60

Marks: 1 (Budgeted Time 1 Min)

Every firm strives to achieve which of the following?

BACHO ISS SUBJECT SE BUS NIKAL JAO ,,,, ISS SE PEHLE SUPPLY APP K QADIM CHUMMY .

Answer (Please select your correct option)

☐ To keep Return on Equity (ROE) lower than Expected return (rE)

☐ To keep Return on Equity (ROE) equal to Expected return (rE)

☒ To keep Return on Equity (ROE) higher than Expected return (rE)

☐ All of the given option

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Correct Answer Solved by Hadi

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MGT201 Financial Management

Question No : 27 of 60 Marks: 1 (Budgeted Time 1 Min)

If total assets of the firm are equal to Rs. 2,000 and debt is Rs. 1,000 then the financial leverage of the firm is equal to which of the following?

Answer (Please select your correct option)

☐ 40%

☒ 50%

☐ 60%

☐ 65%

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Page Safety Tools

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 28 of 60

Marks: 1 (Budgeted Time 1 Min)

Capital structure theory is presented by which of the following?

Answer (Please select your correct option)

☐ Robert Alan Hill

☒ Modigliani & Miller

☐ Brigham & Houston

☐ Van Horne & Gittman

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Page Safety Tools

MGT201 Financial Management

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Question No : 29 of 60

Marks: 1 (Budgeted Time 1 Min)

NM Corporation is financing its seasonal as well as permanent requirements of current assets with long term debt. The firm is using which of the following approaches to finance its working capital?

Answer (Please select your correct option)

☐ Aggressive approach

☒ Conservative approach

☐ Moderate approach

☐ Hybrid approach

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Web Slice Gallery

Examination

VU Examination System (...)

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 30 of 60

Marks: 1 (Budgeted Time 1 Min)

ABC Company has calculated the net advantage of leasing for a plant which is less than zero, what is suggested for the firm in the light of this calculation?

Answer (Please select your correct option)

☐ Plant should be leased

☐ Plant should be purchased

☐ It is indifferent to buy or lease the plant

☐ None of the given options

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MGT201 Financial Management

Question No : 31 of 60 Marks: 1 (Budgeted Time 1 Min)

What is bid rate for currency?

Answer (Please select your correct option)

☒ Buying rate for currency ✓

☐ Selling rate of currency

☐ Forward rate of currency

☐ Ask rate of currency

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MGT201 Financial Management

Question No : 32 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following formula is used to calculate the future value in simple interest?

Answer (Please select your correct option)

☒ $FV = PV + (PV \times i \times n)$ ✓

☐ $FV / (PV \times i \times n) = PV$

☐ $FV = PV - (PV \times i \times n)$

☐ $FV = PV \times (PV \times i \times n)$

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MGT201 Financial Management

Question No : 33 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is NOT the interest rate used for discounting calculation?

Answer (Please select your correct option)

☒ Benchmark interest rate ✓

☐ Effective interest rate

☐ Periodic interest rate

☐ Nominal interest rate

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Web Slice Gallery

Examination

VU Examination System (...)

Home

Print

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 34 of 60

Marks: 1 (Budgeted Time 1 Min)

IRR can be defined as:

Answer (Please select your correct option)

☐ A discount rate that equates the PV of a project's expected cash inflows to the PV of project's cost

☐ Present value of the stream of net cash flows from project's net investment

☐ It's a cost & benefits ratio used to assess the validity of a project

☐ The time period required to receive back the initial investment.

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Page Safety Tools

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 35 of 60

Marks: 1 (Budgeted Time 1 Min)

Which of the following portfolios are those whose risk and return values match the ones computed using theoretical probability distribution?

Answer (Please select your correct option)

☐ Correlated portfolio

☒ Efficient portfolio

☐ Portfolio matrix

☐ Diversified portfolio

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Examination

VU Examination System (...)

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 36 of 60

Marks: 1 (Budgeted Time 1 Min)

A 9-year ordinary annuity has a present value of Rs. 1, 000. If the interest rate is 5 percent, the amount of each annuity payment is closest to which of the following?

Answer (Please select your correct option)

☐ Rs.204.72

☐ Rs.140.69

☐ Rs.451.73

☐ Rs.99.74

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MGT201 Financial Management

Question No : 37 of 60 Marks: 1 (Budgeted Time 1 Min)

By keeping in view patterns of cash flow, either inflows or outflows, Rs. 2,000 at the end of each year for the next 10 years is known as:

Answer (Please select your correct option)

☐ Ordinary Annuity

☐ Annuity due

☐ Mixed Stream

☐ None of the given options

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MGT201 Financial Management BC090201047 (MUHAMMAD ASIF)

Question No : 38 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following play important role to determine the price of the bond?

Answer (Please select your correct option)

- ☐ Time period for which bond is issued
- ☐ Required rate of return
- ☐ Par value of bond
- ☐ All of the given options

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MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 39 of 60

Marks: 1 (Budgeted Time 1 Min)

	Rs.
Interest yield of bond	317
capital gain yield	577
Market price of bond	1150
Yield to maturity	?

Answer (Please select your correct option)

☐ Rs. 894

☐ Rs. 498

☐ Rs. 2044

☐ Rs. 1727

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Examination

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Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 40 of 60

Marks: 1 (Budgeted Time 1 Min)

Par value of share	Rs.100 per share
Preferred dividend rate	7%
Price of a share of preferred stock	Rs.110
Required return	?

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Answer (Please select your correct option)

☐ 6.40%

☐ 7.00%

☐ 7.70%

☐ Required more information

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Web Slice Gallery

Examination

VU Examination System (...)

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 41 of 60

Marks: 1 (Budgeted Time 1 Min)

Which of the given investment will be suitable for Ms Ayesha, if she wants to make risk free investment?

Answer (Please select your correct option)

☐ Government bonds

☐ Common stocks of public limited company

☐ Common stocks of subsidiary of public limited company

☐ None of the given options

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Page Safety Tools

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 42 of 60

Marks: 1 (Budgeted Time 1 Min)

Which of the following is true regarding k for a project?

Answer (Please select your correct option)

☐ The opportunity cost of capital is the return that investors receives by dis-investing in the project rather than in securities of equivalent risk.

☐ Financial managers cannot use the capital asset pricing model to estimate the opportunity cost of capital

☐ The company cost of capital is the expected rate of return demanded by investors in a company.

☐ All of the given options

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Web Slice Gallery

Examination

VU Examination System (...)

Home

Print

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 43 of 60

Marks: 1 (Budgeted Time 1 Min)

While analyzing any portfolio the value of “r” represents which of the following?

Answer (Please select your correct option)

☐ Internal rate of return

☐ Expected rate of return

☐ Required rate of return

☐ Assumed rate of return

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Suggested Sites

Web Slice Gallery

Examination

VU Examination System (...)

Home

Print

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 44 of 60

Marks: 1 (Budgeted Time 1 Min)

Capital Asset Pricing Model (CAPM) assumes that a well-diversified portfolio's expected return is a function of:

Answer (Please select your correct option)

☐ Unique risk

☐ Reinvestment risk

☐ Market risk

☐ Unsystematic risk

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MGT201 Financial Management

Question No : 45 of 60 Marks: 1 (Budgeted Time 1 Min)

How can you limit company-specific risks?

Answer (Please select your correct option)

- ☐ Invest in that company's bonds
- ☐ Invest in a variety of stocks
- ☐ Invest in securities that do well in a recession
- ☐ Invest in securities that do well in a boom

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Examination

VU Examination System (...)

Page

Safety

Tools

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 46 of 60

Marks: 1 (Budgeted Time 1 Min)

Company A has beta of 1.2 and Market return decreased due to unavoidable factors from 5%-3%. What result will be shown by the given information on stock return changes.

Answer (Please select your correct option)

☐ 2.4%

☐ 6.0%

☐ 3.6%

☐ 9.6%

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MGT201 Financial Management

Question No : 47 of 60 Marks: 1 (Budgeted Time 1 Min)

Which of the following is true for computing stock betas?

Answer (Please select your correct option)

- ☐ monitor price of the stock
- ☐ monitor the rate of return of the stock
- ☐ compare the changes in the stock market price to the changes in the stock market index
- ☐ All of the given options

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MGT201 Financial Management

Question No : 48 of 60 Marks: 1 (Budgeted Time 1 Min)

From which of the following equations, net income can be calculated?

Answer (Please select your correct option)

☐ $NI = (EBIT - I) (1 - T_c)$

☐ $NI = (EAT - I) (1 - T_c)$

☐ $NI = (EBIT + I) (1 - T_c)$

☐ $NI = (EBIT - I) / (1 - T_c)$

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BC090201047 (MUHAMMAD ASIF)

MGT201 Financial Management

Question No : 49 of 60 Marks: 1 (Budgeted Time 1 Min)

Mr. A purchased a share from Mr. B after ex-dividend date. Who will be entitled to receive the dividend on this share?

stocks or shares) not including the next dividend.

Answer (Please select your correct option)

☐ Mr. A

☐ Mr. B

☐ Dividend will be divided equally between Mr. A and B

☐ None of the given options

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MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 50 of 60

Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

☐ 1.35

☐ 6.0

☐ 1.60

☐ 0.25

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Examination

VU Examination System (...)

Page

Safety

Tools

Live Search

MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 51 of 60

Marks: 1 (Budgeted Time 1 Min)

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

Answer (Please select your correct option)

☐ A financial lease

☐ An operating lease

☐ Both financial & capital lease

☐ Capital Lease

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MGT201 Financial Management

Question No : 52 of 60

Marks: 1 (Budgeted Time 1 Min)

In case of capital lease, amount recorded on the liabilities side of the balance sheet is:

Answer (Please select your correct option)

☐ the current fair market value of the asset being leased

☐ the current fair market value of the asset being leased less the expected residual value

☐ the present value of the minimum lease payments over the lease period

☐ the present value of the maximum lease payments over the lease period

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MGT201 Financial Management BC090201047 (MUHAMMAD ASIF)

Question No : 53 of 60 Marks: 3 (Budgeted Time 6 Min)

What is the difference between spot and forward exchange rates?

Answer (Please [click here](#) to Add Answer)

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BC090201047 (MUHMMAD ASIF)

Marks: 3 (Budgeted Time 6 Min)

Required: Calculate after-tax cost of debt with the help of provided data.

[illegible]

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MGT201 Financial Management BC090201047 (MUHAMMAD ASIF)

Question No : 55 of 60 Marks: 3 (Budgeted Time 6 Min)

ABC Company has decided to pay cash dividend and increased dividend from Rs. 10 per share to Rs. 12 per share. How it will affect the following:

- Current Assets of the company
- Working capital of company

Answer (Please [click here](#) to Add Answer)

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BC090201047 (MUHAMMAD ASIF)

MGT201 Financial Management

Question No : 56 of 60 Marks: 5 (Budgeted Time 10 Min)

Stock B is being traded in the Karachi Stock Exchange (KSE) at a Market Price of Rs.25/-. You need to calculate the Expected Theoretical Fair Price of a Stock B before you can decide whether to buy it or not. Relevant information is given below:

Forecasted Dividend is Rs.4/- in the upcoming year on a share of Face Value= Rs.10/-

Forecasted Constant Growth Rate in Dividends is **10% pa**. T-Bill Rate of Return or PLS Bank Account ROR is **10% pa**. The Karachi Stock Exchange's historical average ROR based on the value of the KSE 100 Index is **20% p.a.** and Stock B has historically been as volatile or risky as the KSE100 Index has the **Beta 1.0**

Answer (Please [click here](#) to Add Answer)

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MGT201 Financial Management

Question No : 57 of 60 Marks: 5 (Budgeted Time 10 Min)

Sky Flyers wants to purchase a new luxury bus; Rs. 7,300,000 will be required to purchase a new bus; proposed income from this project is Rs. 2,400,000, Rs 2,400,500, Rs 2,500,850 and Rs 2,605,200 respectively for the coming four years. Required Rate of return is 9 %.

Evaluate the project with the help of Profitability index that either the project is feasible or not. (Support your answer with complete working.)

Answer (Please [click here](#) to Add Answer)

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MGT201 Financial Management

BC090201047 (MUHAMMAD ASIF)

Question No : 58 of 60

Marks: 5 (Budgeted Time 10 Min)

How does poor working capital management affect performance of a business?

Answer (Please [click here](#) to Add Answer)

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MGT201 Financial Management

Question No : 59 of 60 Marks: 5 (Budgeted Time 10 Min)

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

Answer (Please [click here](#) to Add Answer)

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