

VIRTUAL UNIVERSITY OF PAKISTAN

A Good Education is a Foundation For a Better Future

CORRECT ANSWER SOLVED BY HADI
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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!



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

Choices:

☐ Standard deviation

☒ Beta coefficient

☐ Correlation coefficient

☐ Variance

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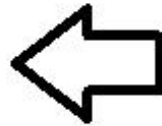
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In Perfect Markets, the rational investors have diversified away which of the following?

Choices:

☐ Company Specific Risk



☐ Market risk

☐ Systematic risk

☐ Non-diversifiable risk

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

Choices:

☐ Risk lover

☒ Risk averse

☐ Professional investors

☐ None of the given options

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

Choices:

☐ The book value of the firm

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

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

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

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Which of the following is an example of floatation cost?

Choices:

☐ Drawings by owners

☐ Commission on purchase

☐ Interest on capital

☒ Brokerage commission

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In the WACC equation ($r_{DxD} + r_{EXE} + r_{PXP}$), x_D represents which of the following?

Choices:

☐ Weight or Fraction of Total Capital value raised from bonds

☐ Weight or Fraction of Total Capital value raised from preferred stock

☐ Weight or Fraction of Total Capital value raised from common stock

☐ Weight or Fraction of Total Capital value raised from retained earnings

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

Choices:

☐ Declaration Date

☐ Holder-of-record Date

☐ Ex-Dividend Date

☐ Payment Date

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

Choices:

☐ December 6☒ December 7☐ December 8☐ December 9

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

Choices:

☐ 25☐ 50☐ 275☐ 250

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

Choices:

☐ Less risk of shortages & interruptions



☐ Less loss of sales due to availability of funds

☐ Lower opportunity cost of capital

☐ High liquidity leading to better credit Rating

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

Choices:

☐ Fat cat working capital policy



☐ Lean & Mean working capital policy

☐ Moderate working capital policy

☐ None of the given options

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

Choices:

☐ EBIT = 0



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☐ EBIT < 0

☐ EBIT > 0

☐ None of the given options

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

Choices:

☐ Financing short-term needs with short-term funds

☐ Financing short-term needs with long-term debt

☐ Financing seasonal needs with long-term funds

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

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

Choices:

☐ Fall☐ Rise☐ Remain the same☐ None of the given options

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RIGHT

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

Choices:

☐ Fall☐ Rise☐ Remain the same☐ None of the given options**MADE BY HADI**Email: hadiraiputofficial@gmail.com Whatsapp: 0308 7122922 (Team Hadi Lahore)

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

Choices:

☐ Flotation costs

☐ Default beta coefficients

☒ Direct bankruptcy costs

☐ Indirect bankruptcy costs



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

Choices:

☐ Experiencing a project failure

☐ Competitor's insolvency

☐ Experiencing technical insolvency

☒ Experiencing accounting insolvency



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Choices:

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☐ Experiencing technical insolvency

☐ Experiencing accounting insolvency

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Which of the following mathematical expressions refers to synergy?

Choices:

☐ $2+2=3$

☒ $2+2=5$

☐ $2+2=4$

☐ None of the given options

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

Choices:

☐ Cherry picking☐ Divestiture☐ Spin-off☐ Asset stripping

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

Choices:

☐ Rs. 6 per AUD

☐ Rs. 76 per AUD

☒ Rs. 79 per AUD

☐ Rs. 456 per AUD



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What is bid rate for currency?

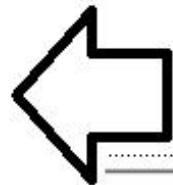
Choices:

☐ Buying rate for currency

☐ Selling rate of currency

☐ Forward rate of currency

☐ Ask rate of currency



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

Choices:

☐ Bid rate☐ Forward rate☐ Future rate☐ Ask rate

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

Choices:

☐ Net Present Value

☐ Discounted Cash Flows

☐ Time Value of Money

☐ Forecasted financial statements

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

Choices:

☐ Call in☐ Call option☒ Call provision☐ Put option

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An investor will not invest in a particular stock if:

Choices:

☐ Stock's Required Return is lower than its Expected Return

☐ Stock's Required Return is higher than its Expected Return

☐ Stock's Required Return is equal to its Expected Return

☐ All of the given options



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

Choices:

☐ It is time to sell stock

☐ It is time to buy stock

☐ It is time to buy and sell of stock

☐ None of the given options



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

Choices:

☐ Required rate of return of stock = Market return

☐ Required rate of return of stock < Market return

☒ Required rate of return of stock > Market return

☐ Required more information to interpret the situation



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

Choices:

☐ Net income → Total firm's market value → WACC

☐ Net income → WACC → total firm's market value

☐ WACC → Net income → market value of equity

☐ Market value of firm → WACC → Net income



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

Choices:

☐ 1.35☐ 6.0☐ 1.60☐ 0.25

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

Choices:

☐ High profitability but low risk

☒ High profitability but high risk

☐ Low profitability but high risk

☐ Low profitability but low risk



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

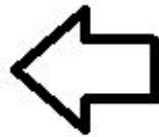
Choices:

☐ Risk free rate of return

☐ Risk of the market

☐ Risk of stock portfolio

☐ Net present value



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

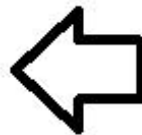
Choices:

☐ Perceived Risk relative to Market

☐ Every Investor's Personal Opportunity Cost of Capital preference

☐ Psychological Risk Profile of each Investor

☐ All of the given options

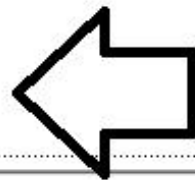


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What will be the effective interest rate if a bank offers 7% annual interest rate on fix deposit account semiannually?

Choices:

☐ 7.12%☐ 7.00%☒ 10.71%☐ None of the given option

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

Choices:

☐ Board of directors

☐ Banks

☐ Financial analyst

☐ Shareholders

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

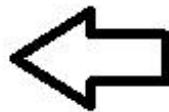
Choices:

☐ Loss on sale of assets

☐ Fee paid to lawyers and accountants

☐ Possible penalties & legal claims

☒ Fee paid to underwriters for issuance of stock



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

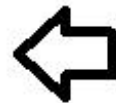
Choices:

☐ Total risk increases with slow rate than the leverage

☐ Total risk increases with decreasing rate

☐ Total risk remains the same

☐ Total risk increases faster than the leverage



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

Answer:



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

Answer:



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

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Financial Management (MGT201)

Question: **53** (Marks: 5)Attempted Questions: **4** Total Questions: **55**

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

Required: What will be consequences on financial health of firm due to change in current assets from 1st quarter to 2nd quarter?

Answer:



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Financial Management (MGT201)

Question: **54** (Marks: 5)

Attempted Questions: **4** Total Questions: **55**

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

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Answer:

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

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Answer:



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