MIDTERM EXAMINATION
Spring 2009
MGT201- Financial Management (Session - 4)

Time: 60 min
Marks: 50

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

What are the earnings per share (EPS) for a company that earned Rs.100, 000 last year in after-tax profits, has 200,000 common shares outstanding and Rs.1.2 million in retained earning at the year end?

- ► Rs.1.00
- ► Rs. 6.00
- ► Rs. 0.50
- ► Rs. 6.50

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

Among the pairs given below select a(n) example of a principal and a(n) example of an agent respectively.

- ► Shareholder; manager
- ► Manager; owner
- ► Accountant; bondholder
- ► Shareholder; bondholder

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

Which of the following is equal to the average tax rate?

- ► Total tax liability divided by taxable income
- ► Rate that will be paid on the next dollar of taxable income
- ► Median marginal tax rate
- ► Percentage increase in taxable income from the previous period

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

Which of the following would be deductible as an expense on the corporation's income statement?

- ► Interest paid on outstanding bonds
- ► Cash dividends paid on outstanding common stock
- ► Cash dividends paid on outstanding preferred stock

► All of the given options

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

In conducting an index analysis every balance sheet item is divided by __________ and every income statement is divided by __________ respectively.

► Its corresponding base year balance sheet item; its corresponding base year income statement item

► Its corresponding base year income statement item; its corresponding base year balance sheet item

► Net sales or revenues; total assets

► Total assets; net sales or revenues

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

Which group of ratios measures a firm's ability to meet short-term obligations?

► Liquidity ratios

► Debt ratios

► Coverage ratios

► Profitability ratios

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

Which group of ratios relates profits to sales and investment?

► Liquidity ratios

► Debt ratios

► Coverage ratios

► Profitability ratios

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

Interest paid on the original principal borrowed is often referred to as __________.

► Compound interest

► Present value

► Simple interest

► Future value

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

If the following are the balance sheet changes, which one of them would represent use of funds by a company?

► Rs. 8,950 decrease in net fixed assets

► Rs. 5,005 decrease in accounts receivable

► Rs. 10,001 increase in accounts payable

► Rs. 12,012 decrease in notes payable

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

In preparing a forecast balance sheet, it is likely that either cash or __________ will serve as a "plug figure" or balancing factor to ensure that assets equal liabilities plus shareholders' equity.

► Retained earnings

► Accounts receivable

► Shareholders' equity

► Notes payable (short-term borrowings)

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

What is the present value of Rs.8,000 to be paid at the end of three years if the interest rate is 11%?

► Rs.5,850
► Rs.4,872
► Rs.6,725

► Rs.1,842

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

What is the present value of Rs.1,000 to be paid at the end of 5 years if the interest rate is 8%.

► Rs.680.58
► Rs.1,462.23
► Rs.322.69
► Rs.401.98

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

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

► Goes down

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

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

The benefit we expect from a project is expressed in terms of**:**

- ► Cash in flows
- ► Cash out flows
- ► Cash flows
- ► None of the given options

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

A proposal is accepted if payback period falls within the time period of 3 years. According to the given criteria which of the following project will be accepted?

	Payback period
Project A	1.66
Project B	2.66
Project C	3.66

- ► Project A
- ► Project B
- ► Project C
- ► Project A & B

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

If a project's initial cash outflow of Rs. 100,000 is followed by four annual receipts of 36,000 we can get the nearest discount factor by:

- ► Interpolation
- ► Dividing 100,000 by 36,000
- ► Dividing 36,000 by 100,000
- ► Insufficient information

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

In which of the following situations you can expect multiple answers of IRR?

- ► More than one sign change taking place in cash flow diagram
- ► There are two adjacent arrows one of them is downward pointing & the other one is upward pointing
- ► During the life of project if you have any net cash outflow

► All of the given options

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

Which of the following technique would be used for a project that has non-normal cash flows?

► Internal rate of return

► Multiple internal rate of return

► Modified internal rate of return

► Net present value

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

What is the advantage of a longer life of the asset?

► Cash flows from the asset becomes non-predictable
► Cash flows from the asset becomes more predictable
► Cash inflows from the asset becomes more predictable
► Cash outflows from the asset becomes more predictable

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

Which one of the following is **NOT** the disadvantage of the asset with very short life?

► Money has to be reinvested in some other project with uncertain NPV

► Money has to be reinvested in some other project with certain NPV

► Money has to be reinvested in some other project with return so risky

► None of the given options

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

You are selecting a project from a mix of projects, what would be your first selection in descending order to give yourself the best chance to add most to the firm value, when operating under a single-period capital-rationing constraint?

- ► Profitability index (PI)
- ► Net present value (NPV)
- ► Internal rate of return (IRR)
- ► Payback period (PBP)

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

Which one of the following is the right of the issuer to call back or retire the bond by paying off the bondholders before the maturity date?

- ► Call in
- ► Call option
- ► Call provision
- ► Put option

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

Which of the following is a characteristic of a coupon bond?

- ► Pays interest on a regular basis (typically every six months)
- ► Does not pay interest on a regular basis but pays a lump sum at maturity
- ► Can always be converted into a specific number of shares of common stock in the issuing company
- ► Always sells at par

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

When a bond will sell at a discount?

- ► The coupon rate is greater than the current yield and the current yield is greater than yield to maturity
- ► The coupon rate is greater than yield to maturity
- ► The coupon rate is less than the current yield and the current yield is greater than the yield to maturity
- ► The coupon rate is less than the current yield and the current yield is less than yield to maturity

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

____ An investment opportunity set formed with two securities that are perfectly negatively correlated. What will be standard deviation in the global minimum variance portfolio?

► Equal to zero
► Greater than zero
► Equal to the sum of the securities' standard deviations
► Equal to -1

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

____
How efficient portfolios of "N" risky securities are formed?

► These are formed with the securities that have the highest rates of return regardless of their standard deviations
► They have the highest risk and rates of return and the highest standard deviations
► They are selected from those securities with the lowest standard deviations regardless of their returns
► They have the highest rates of return for a given level of risk

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

____
Which of the following is **NOT** an example of hybrid equity?

► Convertible bonds
► Convertible debenture
► Common shares
► Preferred shares

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

____ The value of dividend is derived from which of the following?

► Cash flow streams
► Capital gain /loss
► Difference between buying & selling price
► All of the given options

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

____
How dividend yield on a stock is similar to the current yield on a bond?

► Both represent how much each security's price will increase in a year
► Both represent the security's annual income divided by its price
► Both are an accurate representation of the total annual return an investor can expect to earn by owning the security
► Both incorporate the par value in their calculation

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

The market capitalization rate on the stock of Fast Growing Company is 20%. The expected ROE is 22% and the expected EPS ia Rs. 6.10. If the firm's plowback ratio is 90%, the P/E ratio will be ________.

- ► 8.33
- ► 50.0
- ► 9.09
- ► 7.69

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

In the dividend discount model, which of the following is (are) **NOT** incorporated into the discount rate?

- ► Real risk-free rate
- ► Risk premium for stocks
- ► Return on assets
- ► Expected inflation rate

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

A company whose stock is selling at a P/E ratio greater than the P/E ratio of a market index, most likely has _________.

- ► An anticipated earnings growth rate which is less than that of the average firm
- ► A dividend yield which is less than that of the average firm
- ► Less predictable earnings growth than that of the average firm
- ► Greater cyclicality of earnings growth than that of the average firm

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

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

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

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

When Return is being estimated in % terms, the units of Standard Deviation will be mention in __________.

- ► %
- ► Times
- ► Number of days
- ► All of the given options

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

A well-diversified portfolio is defined as:

- ► One that is diversified over a large enough number of securities that the nonsystematic variance is essentially zero
- ► One that contains securities from at least three different industry sectors
- ► A portfolio whose factor beta equals 1.0
- ► A portfolio that is equally weighted

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

Which of the following is **NOT** a major cause of unsystematic risk.

- ► New competitors
- ► New product management
- ► Worldwide inflation
- ► Strikes

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

You are considering two investment proposals, project A and project B. B's expected net present value is Rs. 1,000 greater than that for A and A's dispersion of net present value is less than that for B. On the basis of risk and return, what would be your conclusion?

- ► Project A dominates project B
- ► Project B dominates project A
- ► Neither project dominates the other in terms of risk and return
- ► Incomplete information

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

Which of the following is a drawback of percentage of sales method?

- ► It is a rough approximation
- ► There is change in fixed asset during the forecasted period
- ► Lumpy assets are not taken into account
- ► All of the given options

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

Which of the following need to be excluded while we calculate the incremental cash flows?

- ► Depreciation
- ► Sunk cost
- ► Opportunity cost
- ► Non-cash item

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

Why companies invest in projects with negative NPV?

- ► Because there is hidden value in each project
- ► Because they have chance of rapid growth
- ► Because they have invested a lot
- ► All of the given options

Question No: 41 (Marks: 10)

ICO Company must decide between two mutually exclusive projects. The following information describes the cash flows of each project.

Year	**Project "A"**	**Project "B"**
0	Rs. (20,000)	Rs. 24,000

1	10,000	10,000
2	8,000	10,000
3	6,000	10,000

a. Assume that 15% is the appropriate required rate of return. What decision should the firm make about these two projects?

b. If the firm reevaluated these projects at 10%, what decision should the firm make about these two projects?