

ACC501 Business Finance

Mid Term Examination – Spring 2006

Time Allowed: 90 Minutes

Please read the following instructions carefully before attempting any question:

- All questions are compulsory.
- This exam consists of **10** Multiple Choice Questions (MCQ's), **5** Fill in the Blanks, **5** Short Questions and **1** Descriptive Question.
- You should try to complete MCQ's in 10 - 15 minutes in order to avail 75 - 80 minutes for the descriptive questions.
- For each MCQ, read the choices available carefully and select the choice which you consider is the most suitable, by clicking on the appropriate circle.
- Save your answer before proceeding to the next question.
- Do not click the **"Finish button"** while solving your paper. Once you clicked the "Finish" button, you will not be able to access your paper again. *Click it only at the end after attempting the whole paper, which will be an indication that you have submitted your complete paper.*
- You are required to show all the working of short questions as well as descriptive question in your answers.
- The use of calculator and financial tables is allowed.
- **A clock has been given in the exam software. Software will automatically be closed after 90 minutes.**
- It is your responsibility to manage time and responses to test questions effectively.

- Failure to comply with the supervisor's directions will result in your test being cancelled.
Please comply with supervisor's directions to avoid any unpleasant event.

Question No. 1

Marks : 1

The _____ ratio is the same as the _____ ratio except inventories and "other current assets" are dropped from the numerator.

Question No. 2

Marks : 1

The growth that can be financed without resorting to any external equity financing is called the _____

Question No. 3

Marks : 1

Financial institutions facilitate individuals and firms in:

- Borrowing
- Lending
- pooling of risks
- all of the given options

Question No. 4

Marks : 1

are issued by state and local governments.

- Treasury bonds
- Municipal bonds
- Corporate bonds
- Personal bonds

Question No. 5

Marks : 1

You are expecting to receive Rs.5000 in 3 years. If the interest rate increases, the present value of that future amount to you would:

- Fall
- Rise
- remain unchanged
- cannot be determined without more information

Question No. 6

Marks : 1

is **not** the function of the treasurer:

- Preparation of financial statements
- Investor relationships
- Cash management
- Obtaining finances

Question No. 7

Marks : 1

Sara is interested in purchasing Tom's factory. Since Sara is a poor negotiator, she hires Maria to negotiate a purchase price. Identify the parties to this transaction from the given options, according to agency theory:

- Sara is the agent.
- Maria is the principal.
- Tom is the agent and Maria is the principal
- Sara is the principal and Maria is the agent.

Question No. 8

Marks : 1

Purchasing new machinery for expanding production capacity by a corporation is

Question No. 9

Marks : 3

CVP Corporation has a policy of paying a \$10 per share dividend every year. This policy is to continue indefinitely. What is the value of a share of stock if the required rate of return is 20%?

Question No. 10

Marks : 1

A constant stream of cash flows for a limited number of years coming at regular intervals is called a (an)

Question No. 11

Marks : 1

is **not** an advantage of separation of ownership and management of corporations.

Corporations can exist forever.
Facilitate transfer of ownership without affecting the operations of the firm
Hire professional managers
Incur agency costs

Question No. 12

Marks : 10

Mr. Martin has \$20,000 that he can deposit in savings accounts of any of three banks for a three year period. Bank A compounds on an annual basis; Bank B compounds interest twice each year; Bank C compounds interest each quarter. All three banks have a stated annual interest rate of 4%.

Required:

- a. What amount would Mr. Martin have at the end of 3rd year in each bank?
(Marks: 08)**
- b. On the basis of your findings in part a, describe which bank should Mr. Martin deal with and why?
(Marks: 02)**

Question No. 13

Marks : 1

A firm is having difficulty in controlling its operating expenses. Which ratio category in given options will most directly reflect this problem?

Liquidity
Profitability
Market value
Turnover

Question No. 14

Marks : 1

A firm's investment decision is also called the:

financing decision
capital budgeting decision
liquidity decision
debt financing

Question No. 15

Marks : 3

Why would you prefer corporate form of organization over other forms of business organizations? Discuss giving at least three arguments.

Question No. 16

Marks : 3

What is an agency relationship? Describe the reason that results in agency problem.

Question No. 17

Marks : 1

Suppose a Corporation has a taxable income of Rs.50000 and the tax amount calculated is as given below:

Rs.30000	x 5%	= Rs.1500
(Rs.40000 – 30000)	x 10%	= 1000
(Rs.50000 – 40000)	x 15%	= 1500
Rs.4000		

Total tax amount is Rs.4000. Average tax rate is $\text{Rs.4000} / 50000 = 8.0\%$. Marginal tax rate will be:

- 39%
- 34%
- 15%
- 25%

Question No. 18

Marks : 3

What do you understand by seniority in a bond indenture?

Question No. 19

Marks : 3

What are the three factors that affect Return on Equity, according to Du Pont Identity?

Question No. 20

Marks : 1

In context of inflation and returns, the relationship between real and nominal returns is described by:

- Fisher Effect
- Ricardo Effect
- Robbins Effect
- Fredrick Effect

Question No. 21

Marks : 1

Debt securities issued by corporations are called .