

Quiz 01
Spring Semester 2009
Corporate Finance FIN622

Marks 20=1x20

Student ID/ Login ID: -----

Student Name: -----

Please read the following instructions carefully before attempting Quiz

- This Quiz covers lesson no. 01- 10
- *Due date of quiz no 01 is **March 27, 2009**. It means that you can submit your solution file till 12 O'clock mid night 28/03/2009*
- All instruction will be considered during marking quiz. So, consider all these.
- To attempt a quiz, students **MUST** submit their solution files (word documents) in the following shape / format.

Question #	Correct Options	Question #	Correct Options
1	D	11	C
2	A	12	B
3	A	13	C
4	D	14	C
5	A	15	D
6	D	16	B
7	C	17	A
8	D	18	A
9	C	19	C
10	B	20	B

- *Quiz file must be in Word document, all other would be marked zero.*
- *Give the answer according to question*
- *Use only the black font color*
- *Don't rely only on handouts, use recommended books as well*
- *Avoid choosing more than one option.*
- *Make sure that you upload the solution before due date. No solution will be accepted through E-mail after the due date.*
- *Cheating or copying of solution is strictly prohibited; No credit will be given to copied Quiz.*
- *Once you upload the quiz on LMS, it will not be replaced under any condition*

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SOLUTION

Choose the correct/best option from given MCQs and put your answer in tabular form as drawn above.

1. Juan is starting a software writing company. He is the owner and has only 3 employees. He wants a simple inexpensive form of ownership that leaves him in control and that he can quickly dissolve if he decides to change to another business. His best choice of form of ownership would be:
 - a. S-corporation
 - b. Partnership
 - c. Corporation
 - d. Sole proprietorship
2. A tool that identifies the strengths, weaknesses, opportunities and threats of an organization is know as:
 - a. SWOT Analysis
 - b. Trend Analysis
 - c. Fundamental Analysis
 - d. Technical Analysis
3. When the market's required rate of return for a particular bond is much less than its coupon rate, the bond is selling at:
 - a. A premium
 - b. A discount
 - c. Cannot be determined without more information
 - d. Face value
4. Which of the following statements *best* describe the 'Balance Sheet'?
 - a. Summarizes the firm's revenues and expenses over an accounting period
 - b. Reports how much of the firm's earnings were retained in the business rather than paid out in dividends
 - c. Reports the impact of a firm's operating, investing, and financing activities on cash flows over an accounting period
 - d. States the firm's financial position at a specific point in time
5. Which of the following is the purpose of the Debt management ratios?
 - a. They measure the amount of debt the firm uses
 - b. They measure how effectively a firm is managing its assets
 - c. They show the relationship of a firm's cash and other current assets to its current liabilities
 - d. They show the combined effects of all areas of the firm on operating results
6. In which of the following situations a project is acceptable?
 - a. When a project has conventional cash flows patterns
 - b. When a project has a non-conventional cash flow pattern
 - c. When a project has a discounted rate higher than the inflation rate
 - d. When a project has a positive net present value
7. The gross profit margin is unchanged, but the net profit margin declined over the same period. This could have happened if:
 - a. Cost of goods sold increased relative to sales.
 - b. Sales increased relative to expenses.
 - c. The tax rate has been increased

- d. Dividends were decreased.
8. **Alto Industries has a debt-to-equity ratio of 1.6 compared with the industry average of 1.4. This means that the company**
- Will not experience any difficulty with its creditors.
 - Has less liquidity than other firms in the industry.
 - Will be viewed as having high creditworthiness.
 - Has greater than average financial risk when compared to other firms in its industry.
9. **For purposes of financial statements, the accounting value of fixed assets is:**
- Based on their estimated liquidation value
 - Based on their relative importance to the company
 - Based on their actual purchase price
 - Based on their current market price
10. **Which of the following transactions affects the acid-test ratio?**
- Receivables are collected.
 - Inventory is liquidated for cash.
 - New common stock is sold and used to retire a debt issue.
 - A new common stock issue is sold and equipment purchased
11. **The rate of return on the best available investment of equal risk is called:**
- Discounting
 - Compounding
 - The opportunity cost rate
 - Time lines
12. **An annuity whose payments occur at the end of each period is called:**
- An opportunity cost annuity.
 - An ordinary annuity
 - An annuity due
 - An outflow annuity
13. **Which of the following is the rate of return earned on a bond if it is held until maturity?**
- Yield-to-call
 - Coupon payment
 - Yield-to-maturity
 - Sinking fund yield
14. **Keeping other things constant, if a bond's yield-to-maturity increases:**
- Its price will rise
 - Its price will remain unchanged
 - Its price will fall.
 - Can not be determined
15. **A 30-year corporate bond issued in year 1985 would now trade in which of the following markets?**
- Primary capital market
 - Primary money market
 - Secondary money market
 - Secondary capital market
16. **When the market's nominal annual required rate of return for a particular bond is less than its coupon rate, the bond will be selling at _____.**
- A discount
 - A premium
 - Par value
 - An indeterminate price

17. The buyer of a zero-coupon bond expects to receive:

- a. Price appreciation.
- b. A rate of return equal to zero over the life of the bond.
- c. Variable dividends instead of a fixed interest payment annually.
- d. All interest payments in one lump sum at maturity.

18. The intrinsic value of a share of common stock:

- a. Is the discounted value of all future cash dividends
- b. Increases when the required rate of return increases, if the dividend is held constant.
- c. Is zero if the company pays no dividends
- d. Is the discounted capital gain expected on the stock

19. ABC Company will pay a dividend of Rs.2.40 per share at the end of this year. Its dividend yield is 8%. At what price is the stock selling?

- a. Rs.40
- b. Rs.35
- c. Rs.30
- d. Rs.25

20. Which of the following stock would provide a regular income to the investor?

- a. Growth stock
- b. Income stock
- c. Aggressive stock
- d. Defensive stock