1.

Which of the following are stakeholders?

(A) a shareholder

(B) a lender

(C) the tax authority

(D) all of the given options

Correct Option(s): D

2. If you have loaned capital to a firm, then you could be

(A) a shareholder

(B) a stakeholder

(C) a partner

(D) all of the given options

Correct Option(s): B

3. Which of the following is a basic source of funds for the firm?

(A) debt

(B) equity

(C) asset liquidations

(D) debt and equity

Correct Option(s): D

4. The cash remaining after the firm has met its operating expenses, payments to creditors, and taxes is called

(A) earnings per share

(B) capital contributed in excess of par

(C) residual cash

(D) assets

Correct Option(s): C

5. Current liabilities are liabilities that

(A) will be converted to cash within a year.

(B) must be paid within a year.

(C) will be converted to equity within a year.

(D) none of the given options

Correct Option(s): B

6. A director who is not an employee of the firm is called

(A) an executive director.

(B) an inside director.

(C) an independent director.

(D) an official director.

Correct Option(s): C

7. The main objective of the firm should be to maximize the.........

(A) Profit of the firm

(B) Shareholder's wealth

(C) Production of the firm

(D) none of the given options

Correct Option(s): B

8. A project whose acceptance requires the acceptance of one or more alternative projects is referred to as __________.

(A) a mutually exclusive project

(B) an independent project

(C) a dependent project

(D) none of the given options

Correct Option(s): C

9. A project whose acceptance requires the rejection of another project is referred to as __________.

(A) a mutually exclusive project

(B) an independent project

(C) a dependent project

(D) none of the given options

Correct Option(s): A

10. All of the following are steps in the decision-making process of a good capital budgeting process except:

(A) obtaining the necessary financing

(B) collection of data

(C) evaluation and decision making

(D) re-evaluation and adjustment

Correct Option(s): A

11.

All of the following are widely used methods for evaluating capital expenditures except:

(A) payback period

(B) internal rate of return

(C) net present value

(D) weighted average cost of capital

Correct Option(s): D

12. Under the payback period:

(A) we compute the time required to recoup the original investment

(B) there is no consideration of inflows after the cutoff period

(C) the time value of money is ignored

(D) all of the given options

Correct Option(s): D

13. One of the main advantages of the payback period is:

(A) it is easy to use and places a premium on liquidity

(B) it ignores the time value of money

(C) all inflows related to the decision are considered

(D) outflows are equated with inflows using the rate of return

Correct Option(s): A

14. Under the net present value method:

(A) the interest rate is determined that equates inflows and outflows

(B) the time value of money is not taken into account

(C) inflows are discounted back to determine if they exceed outflows

(D) the basic discount rate is the internal rate of return

Correct Option(s): C

15. The basic discount rate used in net present value analysis is:

(A) the internal rate of return

(B) the cost of common equity

(C) the net discount rate

(D) the cost of capital to the firm

Correct Option(s): D

16. Which of the following is an internal source of investment funding?

(A) Issuing Bonds

(B) Sale of Stocks

(C) Undistributed Profits

(D) all of the given options

Correct Option(s): C

17. Which of the following sources of funds for capital investment involves a tax adjustment to determine the cost of capital?

(A) Retained Earnings

(B) Issuing debt

(C) Issuing common stock

(D) All of these require tax adjustment

Correct Option(s): B

18. The capital budgeting decision involves the planning of expenditures for projects with a life of at least:

(A) One Year

(B) Five Year

(C) Ten Year

(D) Fifteen Year

Correct Option(s): A

19. Which ratio tells the user everything there is to know about a company?

(A) Current ratio

(B) Earnings per share

(C) Price/earnings ratio

(D) No ratio tells the user everything about a company

Correct Option(s): D

20.

All of the following affect financial statement analysis except:

(A) inflation

(B) the independent auditor

(C) alternative accounting principles

(D) industry averages

Correct Option(s): B

21. An example of horizontal analysis would be:

(A) comparing the income of General Motors to that of Ford Motor Company

(B) comparing the income of companies in the auto industry to those in the motorcycle industry

(C) comparing the cash of Wal-Mart for 2005 to the cash of Wal-Mart for 2006

(D) comparing the net income of Wal-Mart for 2005 to the assets of Wal-Mart for 2006

Correct Option(s): C

22. Tracking items over a series of years is a practice called:

(A) profitability analysis

(B) ratio analysis

(C) trend analysis

(D) financial statement analysis

Correct Option(s): C

23. A measure of liquidity would include:

(A) the gross profit ratio

(B) net income

(C) the price/earnings ratio

(D) the quick ratio

Correct Option(s): D

24. Solvency refers to:

(A) a company's ability to meet its current obligations

(B) how well management is using company resources

(C) a measure of a company's success in earning a return for stockholders

(D) the ability of a company to remain in business over the long term

Correct Option(s): D

25. A measure of solvency would include the:

(A) accounts receivable turnover ratio

(B) cash-to-cash operating cycle

(C) times interest earned ratio

(D) asset turnover ratio

Correct Option(s): C

26. A measure of profitability would include:

(A) earnings per share

(B) the debt-to-equity ratio

(C) the inventory turnover ratio

(D) all of the given options

Correct Option(s): A

27. Which of the following item(s) would cause the cash conversion cycle to increase?

(A) Decreasing the inventory holding period

(B) Increasing days payable outstanding

(C) Increasing the average collection period

(D) none of the given options

Correct Option(s): C

28. Why is the amount of debt in a company's capital structure important to the financial analyst?

(A) Equity is riskier than debt

(B) Debt is less costly than equity

(C) Debt is equal to total assets

(D) Debt implies risk

Correct Option(s): D

29. Which profit margin measures the overall operating efficiency of the firm?

(A) Operating profit margin

(B) Gross profit margin

(C) Net profit margin

(D) Return on equity

Correct Option(s): B

30. Which one of the following does NOT belong on an income (profit and loss) statement?

(A) depreciation and amortisation

(B) goodwill

(C) extraordinary items

(D) non-recurring expenses

Correct Option(s): B

31. Which one of the following are NOT all non-cash items?

(A) depreciation, deferred taxes and prepaid expenses

(B) depletion charges, taxes and amortisation

(C) depletion charges, deferred taxes and prepaid expenses

(D) depreciation, amortisation and prepaid taxes

Correct Option(s): B

32. Which one of the following is NOT a cash flow from investing activities?

(A) buying and selling bonds or shares of other firms

(B) buying or selling of land, buildings and plant and equipment

(C) cash payments of dividends to shareholders

(D) issuing and paying out on insurance contracts

Correct Option(s): C

33. Financial statements can be analysed from the following three different perspectives:

(A) management, regulator and bondholder

(B) management, shareholder and creditor

(C) regulator, shareholder and creditor

(D) shareholder, creditor and regulator

Correct Option(s): B

34. Shareholders analyse financial statements in order to:

(A) assess the cash flows that the firm will generate from operations

(B) determine the firm's profitability, their return for that period and the dividend they are likely to receive.

(C) focus on the value of the shares they hold.

(D) all of the given options

Correct Option(s): D

35. The creditors of a firm analyse financial statements so that they can focus on

(A) the amount of debt in the firm.

(B) the firm's ability to generate sufficient cash flows to meet all legal obligations first and still have sufficient cash flows to meet debt repayment and interest payments.

(C) the firm's ability to meet its short-term obligations.

(D) all of the given options

Correct Option(s): D

36. Which of the following is not an example of current assets?

(A) Inventories

(B) Trade Debtors

(C) Loans and Advances

(D) Borrowings

Correct Option(s): D

37. The quick ratio (or acid test) indicates:

(A) the rate at which cash is being received

(B) the short-term liquidity of the business

(C) the rate at which cash is being spent

(D) the speed with which profits are being made

Correct Option(s): B

38. A budget which is prepared in a manner so as to give the budgeted cost for any level of activity is known as:

(A) Master budget

(B) Zero base budget

(C) Functional budget

(D) Flexible budget

Correct Option(s): D

39. ___________ is a summary of all functional budgets in a capsule form.

(A) Functional Budget

(B) Master Budget

(C) Long Period Budget

(D) Flexible Budget

Correct Option(s): B

40.

______________ is a detailed budget of cash receipts and cash expenditure incorporating both revenue and capital items.

(A) Cash Budget

(B) Capital Expenditure Budget

(C) Sales Budget

(D) Overhead Budget

Correct Option(s): A